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World Business Newspaper <http://www.FT.com>

TUESDAY APRIL 29 1997

Banks seek to cut money moved in forex deals

US bank Chase Manhattan and other leading international banks are working to create a financial derivative which they believe could sharply reduce the risk of a payments breakdown in the foreign exchange market. A foreign exchange derivative called a contract for differences would eliminate the need for up to 95 per cent of the \$2,400bn of payments which flow between banks each day to settle foreign exchange deals. Using the contract, the only money to change hands would be the difference in the relative values of the two currencies between the time of the deal and the time of settlement. Page 19

Setback for Northern League: Italy's Northern League, which advocates secession, suffered a big reverse in local elections when voters in the rich northern industrial regions of Lombardy, Piedmont and the Veneto switched to the centre-right opposition alliance headed by former prime minister Silvio Berlusconi. Page 2

Socialists attack Juppé's campaign: French Socialists attacked the cost of prime minister Alain Juppé's latest social plans, while also complaining that he had stolen ideas from them for his general election campaign. Page 2; Martin Wolf, Page 16; Chretien fits caution to the winds, Page 5

GAN loses higher than expected: State-owned French insurance group GAN reported higher than expected 1996 losses of FF75.7bn (\$970m) after a provision of FF13.5bn to cover exposure to property lending by its banking subsidiaries. The group said it was pursuing plans for the privatisation of its principal activities. Page 19

Spielberg runs short of soldiers

Oscar-winning director Steven Spielberg (left) may transfer part of the production of his film, *Saving Private Ryan*, from England to the Irish Republic because of a shortage of extras. DreamWorks, the US entertainment group co-founded by Mr Spielberg, wanted to use 1,000 soldiers or Territorial Army volunteers to re-enact the D-Day landings, but the British army said it did not have enough troops available. Page 8

Stolen Citibank bonds surface: Multi-million dollar Citibank bonds stolen in the US 10 years ago surfaced in London when two innocent parties attempted to present them as security. The bonds are part of a cache with a face value of \$112bn (\$89bn) taken from a New Jersey waste-paper recycling company. Page 19

Nissan Mutual to be probed: Japan's Ministry of Finance launched an investigation into insurance company Nissan Mutual Life, the first life insurance company to fail in Japan since the second world war. Page 6

Yeltsin orders sweeping reforms: Russian president Boris Yeltsin signed sweeping decrees to restructure the country's "natural monopolies" and overhaul its inefficient municipal services. Page 2

Boost for online shopping: Japanese electronics manufacturers Fujitsu, Hitachi and NEC are setting up a joint venture company that could advance the market for online shopping in Japan by providing a widespread means of certifying the identity of shoppers. Page 19

India's new government faces crisis: India's week-old United Front government faces its first political crisis as police announced plans to bring corruption charges against one of the coalition's senior powerbrokers, Laloo Prasad Yadav, chief minister of Bihar. Page 15

Repsol tranche increased: Big demand from small investors for shares in Spanish oil, gas and chemicals group Repsol in the last stage of its privatisation, forced the government to raise the retail tranche by 20 per cent. Page 19

Demon Internet offers stake: Demon Internet, the UK's leading independent Internet service provider, with 102,000 subscribers, is offering to sell a stake of up to 49 per cent in exchange for new investment. Page 19

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STOCK MARKET INDICES	
New York: Dow Jones Ind. Av.	6769.38 (+30.51)
NASDAQ Composite	1217.40 (+8.11)
Europe and Far East	
CAC40	2550.25 (+12.58)
DAX	3363.06 (+14.21)
FTSE 100	3385.77 (+20.0)
Nikkei	18670.27 (+57.51)
US LUNTIME RATES	
Federal Funds	5.5%
3-month Treas. Bill	5.31%
Long Bond	5.5%
Yield	7.13%
OTHER RATES	
UK 3-month Interbank	8.5%
UK 10 yr Govt	5.31%
France 10 yr Govt	5.7%
Germany 10 yr Bond	100.42
Japan 10 yr Govt	104.8533
NORTH SEA OIL (Augsburg)	
Brent Dated	\$77.83 (18.11)

Barclays Bank	100.00
Bank of America	100.00
Bank of China	100.00
Bank of India	100.00
Bank of Japan	100.00
Bank of Korea	100.00
Bank of London	100.00
Bank of Mexico	100.00
Bank of New York	100.00
Bank of Paris	100.00
Bank of Spain	100.00
Bank of Sweden	100.00
Bank of Switzerland	100.00
Bank of Taiwan	100.00
Bank of Thailand	100.00
Bank of Tokyo	100.00
Bank of Union	100.00
Bank of Vietnam	100.00
Bank of West	100.00
Bank of World	100.00
Bank of Xing	100.00
Bank of Yantai	100.00
Bank of Zibo	100.00

Dollar rises despite G7 warning

Markets believe ministers lack will to intervene

By Simon Kuper in London and Gerard Baker in Washington

The dollar pushed higher yesterday as traders decided that the Group of Seven industrialised nations lacked the will and the power to reverse the US currency's rise.

Strategists pointed out that Sunday's G7 statement on exchange rates made no threat of intervention in the market.

The dollar closed in London half a penny and half a yen above Friday's closing levels, at DM1.728 to the German currency and ¥126.5 to the yen.

Analysts forecast that US economic data due out this week would be positive, spurring the dollar higher. The most closely watched figures will be the non-farm payrolls and the average hourly earnings data, due on Friday, as well as today's employment cost index and tomorrow's



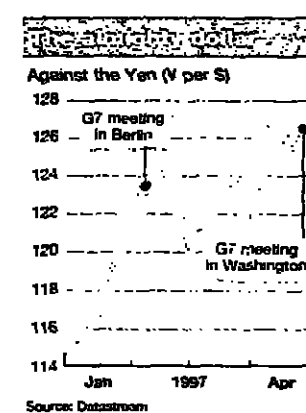
US Federal Reserve chairman Alan Greenspan (left) and Bank of England governor Eddie George in Washington yesterday

first-quarter gross domestic product figure. Strong results would fuel the market's belief that the Federal Reserve will raise US interest rates after its Open Market committee meeting on May 20.

The G7 issued a statement after its Washington summit last weekend that was apparently intended to stem the rise of the dollar. The US currency has jumped more than 50 per cent against the yen and

almost 25 per cent against the D-Mark in the last two years. On exchange rates, the G7 said "excess volatility and significant deviations from fundamentals are undesirable". Crucially, however, it made no

threat to intervene by selling dollars if necessary. The Washington statement barely differed from that issued after the last G7 summit in Berlin in February. That communiqué had also



failed to halt appreciation of the dollar. The only new element in the Washington statement was a mention of "the importance of avoiding exchange rates that could lead to the reemergence of large external imbalances". Economists took this as a reference to the growing US trade deficit with Japan.

Mr Paul Chertkow, head of global currency research at UBS in London, said the G7's statement was "less aggressive than the market had envisaged". Mr Michael Burke.

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Murdoch clash with EchoStar threatens TV plans

By Christopher Parkes in Los Angeles

Mr Rupert Murdoch's daring plan to jump into a leading position in the US satellite television market has run into trouble after a clash with his prospective partner, EchoStar.

Applications for regulatory approval of News Corporation's planned \$1bn investment in a 50 per cent stake in the established operator have been delayed, EchoStar said yesterday.

The Colorado-based company, which has about 450,000 subscribers, said it was hopeful News Corp would honour its obligations. However, no new timetable for regulatory filings had been set, and "there can be no assurance that News Corp will proceed with an investment in EchoStar", it added.

The companies have clashed over News Corp's insistence that EchoStar abandon its own smart-card and set-top box system, which allows viewers access to pay-per-view programmes, before it goes ahead with its investment.

Failure to proceed with the partnership could throw the plans into turmoil and leave EchoStar once again looking for a rich partner to fund its expansion.

The planned link, which shook the fast-growing US satellite TV industry when it was announced in February, would have given the Murdoch-controlled media group the ability to broadcast almost immediately.

Steel prices equalise across Europe

By Stefan Wagstyl, Industrial Editor

For the first time since the Second World War the price of sheet steel, a staple industrial raw material, is virtually the same in eastern and western Europe.

The price convergence owes something to recent short-term swings in supply and demand within the two regions, but it also reflects the long-term economic transformation of eastern Europe.

Mills there - which under Communism sold metal with little regard for costs or prices - are now as concerned about profit margins as their western rivals.

One example is hot-rolled coil. This coiled steel sheet - used for car bodies, machinery housing and electrical appli-

ances - now costs about DM520 (\$500) a tonne in the EU and in Poland, the Czech Republic and Hungary.

Two years ago, hot-rolled coil was about DM200 cheaper in eastern Europe than the west.

"The price differential has been eroded and I think this is quite important," said Mr Peter Fish, managing director of Meps (Europe), a Sheffield-based consultancy.

He forecasts that future east European prices will be governed by those in the EU.

Steel sheet prices have been rising in eastern Europe since the region's economies started recovering from recession in the early 1990s.

The increases were fuelled by strong local demand and by the mills' efforts to raise prices to profitable levels. However,

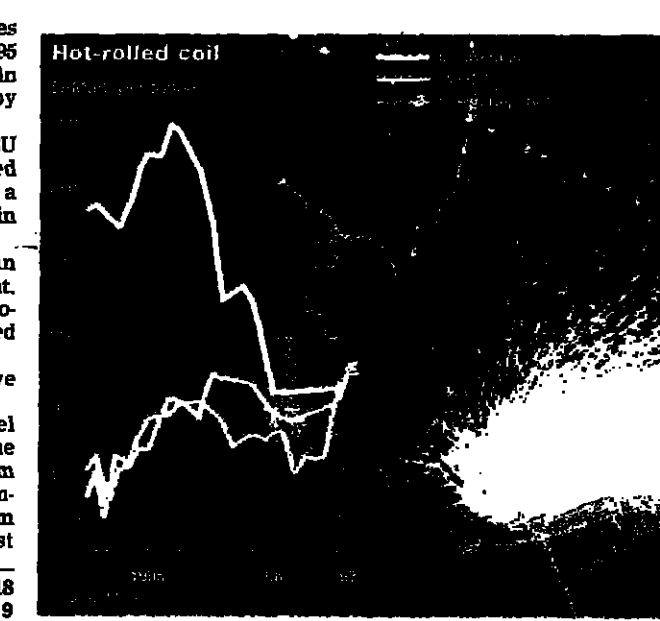
the scale of these increases was masked in 1994 and 1995 by a strong cyclical upswing in EU steel prices, powered by economic recovery.

But since early last year EU steel prices have dropped sharply, due mainly to a severe economic slowdown in Germany.

Meanwhile, east European prices have remained buoyant, notably in Poland where economic growth has stayed strong.

The price changes have affected trade.

Eastern Europe's steel exports grew rapidly in the early 1990s to a peak of 6.05m tonnes in 1995, prompting complaints about dumping from western producers. But last



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Steel and aluminium, Page 9

SA group leads bid for Brazil ore stake

By Geoff Dyer in São Paulo

A consortium including Anglo American, the South African mining group, is the favourite to buy a controlling stake in Companhia Vale do Rio Doce (CVRD), the world's largest iron ore producer, at an auction launching Latin America's biggest ever privatisation scheduled for today.

However, in spite of assurances from President Fernando Henrique Cardoso of Brazil, it was still not certain yesterday that the auction would go ahead as planned, because of more than 100 legal actions taken out against the privatisation.

The National Development Bank (BNDES), which oversees privatisations, was trying yesterday to overturn an injunction awarded by a São Paulo judge on Friday suspending the auction on the grounds of irregularities in the tender documents.

The Brazilian government plans to sell a 40-45 per cent stake of voting shares in CVRD at an auction at the Rio stock exchange for a minimum price of \$23.3bn (\$3.1bn).

A successful sale of CVRD would provide a huge boost to Brazil's ambitious privatisation programme which also includes large parts of the tele-

coms and electric energy industries, ports and railways. Analysis believes the Valecon consortium, which is joint-led by Anglo American and Grupo Votorantim, the largest family-owned group in Brazil, will be willing to pay more than the other consortium, led by Companhia Siderurgica Nacional, Brazil's largest steel-maker, because of its strong mining interests.

"The potential synergies between Valecon and CVRD are much greater than those with CSN," said Mr Raphael Biderman, analyst at Robert Fleming in São Paulo. However, Ms Isabela Saboya, analyst at Banco Icatu in Rio de Janeiro, cautioned: "It is an auction, so anything could happen." Valecon's other members are Caeml, a Brazilian mining company, two Brazilian pension funds and a group of 11 Japanese steel and trading companies headed by Nippon Steel.

The members of the CSN-led consortium are Suzano, a Brazilian paper and pulp company, Opportunity Asset Management, an investment fund, four Brazilian pension funds and NationsBank of the US.

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NEWS: EUROPE

Russia moves to overhaul monopolies

By John Thornhill in Moscow

President Boris Yeltsin yesterday signed a series of sweeping decrees to restructure Russia's "natural monopolies" and overhaul its inefficient municipal services.

This new burst of economic reform, the most radical since 1992-1993, aims to inject greater competition in important industries, strengthen public finances and spark growth in an economy which has been dogged by recession since the beginning of the decade.

Mr Boris Nemtsov, first deputy prime minister, is spearheading the reform drive. He said the measures would also help the government pay off wages owed to federal

employees and attract new investment to upgrade the country's run-down infrastructure.

Outlining plans to reform the natural monopolies, Mr Nemtsov vowed to create a competitive wholesale market for electricity leading to reduced tariffs by the year-end.

The government would keep control of a 51 per cent share of UES, the big electricity utility, and retain an integrated power grid, he said. But it would seek an additional \$8bn from outside investors to build new power transmission lines.

Mr Nemtsov said the government would also exercise stronger control over the railway network and Gazprom, the giant gas monopoly

in which the state retains a 40 per cent stake. But he said the government would not break up the company as had previously been mooted.

"We must retain the single system of gas supply in Russia. We must strengthen the positions of Gazprom in foreign markets, we must facilitate the growth of the price of Gazprom shares. The richer Gazprom is, the richer Russia is," he said.

However, Mr Nemtsov said competitive tenders would be held for new gas deposits, and wider access would be granted to the pipeline network. Government officials will visit Gazprom's headquarters on May 16 to discuss how to implement the industry restructuring.

In an apparent departure from its monopolies policy, the government announced plans yesterday to turn the Svyazinvest telecommunications holding company into the dominant carrier of international and long-distance telephone traffic.

"On the one hand, the government is trying to beat up the gas, electricity and railway industries but on the other, is trying to create a new national telecoms monopoly," said one western banker in Moscow, speculating the government was not strong enough to tackle every entrenched interest simultaneously.

Mr Nemtsov said the government would sell 25 per cent of Svyazinvest's shares to Russian or foreign

investors for at least \$1.2bn and subsequently sell a further 24 per cent to Russian investors. But the terms of the tender suggest well-connected Russian banks are likely to win control of the company.

The other main thrust of economic reform will be aimed at slashing housing and utility subsidies, which are a drain on federal and local treasuries.

Mr Vyacheslav Basov, chairman of the federal housing policy committee, said local government was wasting billions a year subsidising inefficient municipal services.

The government would now encourage greater competition in municipal services, introduce energy-saving technology and phase out housing subsidies for the rich.

Socialists attack Juppé social plans

By David Buchanan in Paris

French Socialists yesterday attacked the cost of Mr Alain Juppé's latest social plans, while also complaining the prime minister had stolen some ideas - like adjusting working time to create more jobs - from them.

This inversion of the usual stances taken by the centre-right government and left-wing opposition indicated that, at the start of its second week, the campaign between the mainstream parties is already developing into a battle for the centre of French politics.

In a television interview, Mr Juppé pledged action on several social priorities. However, he still forecast that, if returned to power, the centre-right would

increase general spending by "a little less than inflation", thus cutting it slightly in real terms, for the next five years.

The prime minister's promises to extend health insurance, give more aid to farmers and re-introduce a bill to help the very poor would cost FF25bn (\$4bn) extra, said Mr Dominique Strauss-Kahn, a former Socialist minister yesterday. Given his pledge to keep the lid on spending, Mr Juppé "will have to cut elsewhere", Mr Strauss-Kahn forecast. Other Socialists accused Mr Juppé of deliberating distorting figures to show that unemployment and taxes had only risen marginally during the past four years of centre-right rule.

However, Ms Dominique

Voynet, leader of the Greens, who have allied themselves to the Socialists, reacted positively yesterday to Mr Juppé's promise to create an independent committee on "environmental ethics" to consider such issues as the restarting of the Superphenix nuclear reactor near Lyon. Superphenix, abandoned as a breeder reactor but maintained for research, is a big issue for the Greens.

"If election time makes Alain Juppé reconsider, then I rejoice," said Ms Voynet yesterday.

Today the coalition of the Gaullist RPR and centre-right UDF will issue their manifesto, while Mr Lionel Jospin, Socialist leader, will hold an election strategy session with Mr Robert Hue, Communists general secre-



Socialist leader Lionel Jospin (right) on the campaign trail in Blois where he discussed new plans for the town and met the mayor, Jack Lang, former Socialist minister (left).

tary. Mr Jospin explained his aim was to agree on as many election issues as possible with Mr Hue, but not to try to hammer out a programme for governing together with the Communists.

Socialists in France and Germany have been discuss-

ing their approach to economic and monetary union, the Socialist spokesman in Paris said yesterday. He claimed the German SPD had initially favoured postponing Emu beyond 1999, but had come round to the French Socialist view that

the conditions for the single currency should be softened to allow it to start on time. But Mr Francois Hollande, the party spokesman, admitted the discussions were a bit "unreal" because neither party was in power. France and Emu, Page 16

Italian voters give hardliners ammunition

By Robert Graham in Rome

The centre-left government's difficult task of negotiating a satisfactory reform of Italy's pensions and welfare system has been complicated by Sunday's local elections which involved almost one-fifth of the electorate.

The hardliners in Reconquered Communism (RC), headed by Mr Fausto Bertinotti, are determined to limit the scope of any shake-up in the generous pensions system. It is they who have emerged from the elections with their bargaining power enhanced. The RC's performance has underlined that the government of Mr Romano Prodi, the prime minister, can only survive with its support and this means moving away from the centre to the left on a range of issues, not just pensions.

Mr Bertinotti has consistently refused to give a blanket endorsement to the government since it took office last May. Instead he has conditioned the vital votes of his 35 deputies almost on a case-by-case basis.

RC chose to stand alone in Sunday's first round of voting in many of the towns and cities to demonstrate that its votes were indispensable to the Olive Tree coalition - most notably in the flagship cities of Milan and Turin.

Under the local election voting system, unless a coalition and its candidate for mayor obtains an absolute majority on the first round, there is a run-off. The system enables parties to

test their strength without necessarily prejudicing the outcome in the run-off.

In Milan and Turin the impact of the RC fighting alone was clear. Without RC, the Olive Tree coalition could muster 27 per cent of the vote in Milan and 35 per cent in Turin. If RC's almost 9 per cent were added, this would be enough to overtake the rightwing alliance in Turin and to be just behind in Milan.

In contrast, in cities such as Ravenna and Siena where RC decided to back the Olive Tree alliance, there was an absolute majority. The message from Mr Bertinotti is that, without RC, the Olive Tree has no chance in the run-off on May 11. This puts Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS) which is the dominant coalition partner, in an awkward position.

Over the past year he has been trying to broaden the appeal of the PDS by moving into the centre and making it a real social democratic party. But he risks forfeiting the existence of two mutually antagonistic "lefts" - the PDS and the RC. The strengthening of RC is all the more problematical as he is trying to pilot the parliamentary commission charged with drawing up proposals for constitutional reform by the end of June. He can only achieve this through a broad deal with the opposition headed by Mr Silvio Berlusconi, former premier, and Mr Bertinotti is opposed to such a deal.

Mr Bertinotti nearly brought down the government earlier this month by refusing to back the policy of sending troops to Albania. The government survived by relying on the votes of the rightwing opposition. All parties recognised this experience was difficult to repeat without formally seeking a new parliamentary majority which almost certainly would lead to formation of a new government.

Yesterday Mr Bertinotti called for a clear pact with the government on a policy platform. This was a more subtle way of indicating the government had to move closer to RC's minimalist view of pension reform and its scepticism of the rush to join the single European currency. Mr Prodi is committed to joining the euro in the first wave of countries, but for his survival he has to rely on Mr Bertinotti.

The elections and the horse-trading to forge alliances for the run-off therefore increase the likelihood of an impending government showdown.

Bruton to break with past as Ireland awaits election call

John Murray Brown on a 'choose-your-government' approach

The campaign literature is published, the advertising space booked and deputies are already working the doorsteps. No election has yet been called, but no one in Ireland doubts it will be soon.

Mr John Bruton, the prime minister, could wait until January but he is juggling three possible dates before parliament's summer recess and the start of the school holidays - May 23, May 29 and June 6. Under the constitution, he has to allow between three and four weeks for the campaign before dissolving the Dail and election day.

When he does decide, it will be the first time in more than 20 years that the country is offered the choice of two potential governments - the current Fine Gael-led coalition of Mr Bruton or a repeat of the 1989-92 Fianna Fail cohabitation with the right-of-centre Progressive Democrats.

In the past, contests have had a tendency to rest on whether voters were for or against Fianna Fail, the country's largest party - reflecting the sterile divisions of Ireland's party politics since partition in 1922.

But Mr Bruton is breaking with tradition, indicating he will fight on a joint platform with his coalition partners - Mr Dick Spring's Labour party and the Democratic Left of Mr Proinsias de Rosca.

It is a high risk strategy, given policy differences between the conservative, rural-based Fine Gael and its leftwing partners. Analysts also point out that no incumbent Fine Gael-led government has ever been returned for a second term. Equally, Fianna Fail has never had to



Tight race: John Bruton and Bertie Ahern

spend more than one term in opposition.

Polls suggest it will be a tight race, with the populist Fianna Fail, led by Mr Bertie Ahern with Ms Mary Harney's Progressive Democrats (PDs) predicted to win. However, that supposition is based on how voters would use their first preferences under Ireland's multi-seat constituency, single-transferable vote system.

At the last election in 1992, only 30 per cent of the 198 deputies in the Irish parliament or Dail were returned as a result of first preferences.

In theory, Ireland's system allows voters to express a preference for a coalition by naming as their second preference a possible partner for their first-preference party.

But results are difficult to forecast, particularly as the main parties' traditional links with their rural base are breaking down as people leave the countryside.

To be certain of a majority this time, Fine Gael would need to secure significant numbers of second or third preferences from the other

two parties, as they would from Fine Gael.

According to a recent poll in the Dublin area, which accounts for a third of the electorate, more than 25 per cent were undecided. More strikingly, only 40 per cent of first-time voters said they would vote, underlining a growing disaffection with national politics.

The coalition's chances of forming the next government will turn on Labour's performance. If current polls are anything to go by, Labour is set to lose up to a third of its 32 seats - mostly to Fianna Fail. But party officials believe such predictions are over-gloomy and point out that 22 of Labour's seats last time were won on first preference votes.

The government will doubtless make much of the economic "feel good factor". By calling the election now, Mr Bruton hopes some of the residual glow from last year's successful handling of the EU presidency may rub off on the coalition. He is also expected to exploit any embarrassment arising from the current tribunal hearing

into political donations - in which Mr Charles Haughey, Fianna Fail's former leader, is accused of receiving £1.2m (\$2m) from the owner of a local supermarket chain while he was prime minister in the late 1980s.

But with Europe and Northern Ireland well down the agenda, the main contest is likely to be fought over local issues.

In the next few days, the Dail is expected to pass legislation on local government finance - a direct response to calls from farming communities for rural water rates to be abolished.

A unanimously populist measure, the coalition believes it can use the water issue to exploit divisions between Fianna Fail and the more market-oriented PDs, who have called for water charges to remain.

The government is also hoping it has a vote winner in its recent licensing of rural television transmitters, which pick up British television signals and redirect them to homes in the west of Ireland. This has angered Dublin-based cable companies awarded franchises to operate in the area.

Clearly with so little between the parties in the polls and so many floating voters, the conduct of the campaign will be critical. Independents are also expected to pose a significant challenge to the main parties. If there is one fairly safe prediction it is that the Greens and other independents will increase their representation from six seats.

As Mr P. J. Mara, chief election strategist for Fianna Fail explains: "I keep telling our party officers to remember we're fighting 41 separate elections this time, one in each constituency."

EUROPEAN NEWS DIGEST

Dutch want focus on jobs

The Dutch presidency of the European Union yesterday expressed the hope that the need to tackle unemployment would be reflected in the revision of the Maastricht treaty due to be agreed at the Amsterdam summit in June.

Mr Hans van Mierlo, the Dutch foreign minister, said after a meeting in Hamburg yesterday with Mr Klaus Kinkel, his German counterpart, that he detected a growing consensus in favour of an employment paragraph in the inter-governmental conference to update the treaty. However, he said, it remained unclear how effective such a paragraph could be because he expected the text would have to please both supporters of a more active EU approach to Europe's problem of high unemployment and countries which have been strongly opposed.

He expressed doubts whether conditions would improve after the widely expected victory of the opposition Labour party in Thursday's UK general election.

Yesterday's talks underlined the unity of Germany and the Netherlands in their enthusiasm for greater integration of the EU. Mr Kinkel stressed the importance of a successful summit in Amsterdam as a prelude to opening negotiations at the end of this year on expanding the Union.

Work pact agreed in Spain

Leaders of Spain's main unions and employers' organisations yesterday put their formal signatures to a wide-ranging "job stability agreement", the most significant accord reached between them for more than a decade. They called on the centre-right government to use to push legal changes rapidly through parliament so that the new rules could take effect.

The signatories had to avoid demonstrators from minority unions protesting against the pact, agreed earlier this month after tough negotiations between the General Workers Union, Workers' Commission, the Spanish Confederation of Business Organisations and the Spanish Confederation of Small and Medium-Sized Companies.

The main innovation is a new kind of work contract aimed at increasing the number of stable jobs and limiting the maximum compensation which employees may seek when they are made redundant. The agreement is aimed at overcoming companies' reluctance to engage permanent staff, and reducing the official jobless rate of almost 22 per cent, easily the highest in the European Union.

David White, Madrid

Iberia under investigation

Spanish competition authorities yesterday began an investigation into allegations of price-fixing on domestic routes by Iberia, the state-owned airline, and its two leading private-sector competitors.

The move came in response to complaints from a consumers' association and regional authorities in the Canary and Balearic Islands after all three companies announced fare increases of at least 10 per cent on almost all their Spanish services and the dropping of some promotional fares.

The increases brought an end to a price war waged since last year between Iberia, the privately owned Air Europa, and Spanair, a joint venture in which SAS is a partner. The two private sector companies, initially founded as charter airlines, have been competing in regular scheduled services since the Spanish market was deregulated in 1993.

The economy ministry's competition unit said the companies were suspected of agreeing to raise fares simultaneously and to bring them into line with each other.

David White

Karabakh talks get nowhere

The leaders of Armenia and Azerbaijan held peace talks in Istanbul yesterday but failed to make any progress in ending 10 years of fighting over the region of Nagorno-Karabakh. The mountainous enclave is legally part of Azerbaijan but its majority Armenian population has seized control there. Fighting flared up again last week between Azeri troops and rebel Armenian forces. The clashes are the worst since a 1994 ceasefire.

Turkey, which has backed Azerbaijan by blockading Armenia, sponsored the talks between Armenia's President Levon Ter-Petrossian and Mr Heydar Aliyev, the Azeri leader. Although neither made any statement after the meeting, the Azeri consul in Istanbul, Mr Abbas Hacıoglu, said: "There has not been a change in the views concerning the solution of the problem."

Mr Hacıoglu said his government wanted a peaceful solution: "We are ready to give the largest possible autonomy to Nagorno-Karabakh." But he warned: "We are determined not to leave Karabakh under Armenian occupation. If necessary, we will fight to the last Azeri to free our land from occupation."

John Barham, Ankara

More 'haves' in Hamburg

Hamburg and Brussels boast the highest percentage of Europe's "haves", France's overseas departments and Spain's Balearic Islands have a greater quotient of "have-nots". Those are the findings of a survey published yesterday by the European Union's statistical body, Eurostat, which ranked the most and least prosperous regions of the EU in terms of the incomes of its citizens.

According to Eurostat, average income across the EU is around \$18,300. On average, people living in Hamburg and Brussels earned about twice that. Average income in the US is around \$21,750, while the figure for Japan is \$31,640, according to Eurostat.

On the national level, Luxembourg has the EU's the highest average income (\$33,490) while Portugal (\$7,945) has the lowest.

AP, Brussels

Soccer club chief arrested

Italian police said yesterday they had arrested the chairman of the first division soccer club Vicenza and his predecessor on suspicion of bankruptcy fraud. A finance police statement said Mr Gianni Sacchetto and Mr Peraldo Dalle Carbonare, whose family owned the club until last September, were among six people arrested on Sunday. Four people, including Mr Sacchetto, Mr Dalle Carbonare and his brother Sebastiano, were being held in jail in Milan. Two others were under house arrest.

The detentions followed three months of investigations linked to the collapse in June 1995 of Trevitex, a financial holding company controlled by the Dalle Carbonare family. The police statement said all six men were suspected of conspiring fraudulently to disperse the assets of Trevitex through front companies, including one allegedly used by Mr Sacchetto to buy a 99.9 per cent stake in the Vicenza club.

The statement said investigators believed the company was owned by the Dalle Carbonare family "which pretended to cede control of Vicenza to prevent the club being included in assets subject to receivership procedures".

Reuter, Rome

IMF backs Russia's reforms

Mr Anatoly Chubais, Russia's reformist first deputy prime minister, has won strong backing from the International Monetary Fund and World Bank for the government's latest reform drive.

After meetings with finance ministers from the Group of Seven countries in Washington at the weekend, Mr Chubais said Russia would join the Paris Club of creditor nations this year and be admitted to the World Trade Organisation by the end of 1998.

John Thornhill, Moscow

FINANCIAL TIMES
Published by The Financial Times (Europe)
GmbH, Norddeutscher Platz 1, 40118 Frankfurt am Main, Germany. Telephone +49 (0) 69 15 93 0. Fax +49 (0) 69 15 93 0. Registered in Frankfurt by J. Walter Brand, Wilhelm J. Brand, Gerd A. Krensch, as Geschäftsführer and in London by David C. M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholders of the Financial Times (Europe) GmbH are Pearson PLC, Reed Elsevier, and the Financial Times Ltd, registered at the same address.

FRANCE
Publishing Director: P. Maréchal, 42 Rue La Boétie, 75008 PARIS. Telephone 01 57 57 82 84. Fax 01 57 57 82 31. Printed: S.A. Nord Edito, 1921 Rue de Clichy, F-91411 Brunoy Cedex. Editor: Richard Lambert. ISSN 1148-2753. Circulation: Parisienne No 67300.

SWEDEN
Responsible Publisher: Helt Enkelt AB, 615 9035. Printed: AB Kvalitetsgruppen, Expressen PO Box 5017, S-551 06, Jönköping.

© The Financial Times Limited 1997. Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HT.

NEWS: INTERNATIONAL

Global watchdogs urged to bark with one voice

By Robert Chote in London and Gerard Baker in Washington



International efforts to promote financial stability in emerging market economies are being threatened by possible turf wars among international institutions and regulators.

Finance ministers and central bank governors from the Group of Ten leading industrial countries yesterday endorsed a report that defines the respective roles of various international

institutions and urges them not to trespass on each other's territory.

The study concluded that guidelines to promote financial stability should be drawn up and promoted by the International Accounting Standards Committee, the G10 Committee on Payment and Settlement Systems, the

Basle Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

The study - by a committee of representatives from industrial countries, emerging markets and international institutions - noted that no organisations were yet developing norms for loan classification, asset valuation and provisioning, the design and use of deposit insurance or good corporate governance.

"Consideration needs to be given to whether there is a need to develop an international consensus in these and other areas and how it should be done," it said.

The committee urged the International Monetary Fund to check whether countries were living up to the principles developed by the international groupings. But the IMF was warned not to overstep the mark and draw up its own rules. "In particular, in areas where core principles and norms have been developed, such as bank

supervision, securities market oversight and accounting, the internal guidelines of these multilateral institutions should incorporate these norms as they stand."

Officials said this wording took account of the desire among some staff at the IMF, when the initiative was getting under way, to draw up banking rules themselves. They said the Basle Committee had been conspicuously slow off the mark to play its part.

The study argues that the World Bank and the regional development banks will normally be the best institutions to offer advice and finance reforms to the financial sector. But the committee was also concerned that the financial sector conditions laid down in Bank and IMF programmes were occasionally inconsistent and counterproductive.

"The co-ordination between the IMF and World Bank should take place at all levels, and extend to regular and frequent contact between financial sector and country experts in both

institutions and be based on clear and efficient procedures for co-ordinating operations and establishing priorities jointly for country operations," it says.

Government representatives were unimpressed by early proposals to improve co-ordination drawn up by IMF and World Bank staff. "The IMF and World Bank should take further steps to define their respective roles and means of co-ordination, both between themselves and with other international organisations," the

committee report concludes. US officials pronounced themselves pleased with the progress towards consensus.

They said the decision to involve the various international financial institutions and regulators had encouraged a healthy degree of competition among them, a factor that had added greater urgency to the deliberations.

Despite despatch of a special UN envoy the Sahrawis may have to give up independence hopes

Deserted in the 'desert of deserts'

For a brief moment last weekend, in the sprawling camps of the Algerian desert where they have lived for 21 years, refugees from neighbouring Western Sahara believed the world had finally remembered them.

Wrapped in brightly coloured shawls amid a blinding sandstorm, the women's voices rose in ululation. Children, thousands of them, in rags and barefoot, raised drawings of doves to symbolise peace, while men in fading army uniforms stood sternly, desperately trying to pretend that they could still fight their arch-enemy Morocco for their cherished Sahara.

Few younger men were to be seen. They are sent to the front as soon as they reach 18, to train for the expected collapse of the United Nations-sponsored ceasefire of 1991.

In the sweltering heat, fighting the wind of sand, a band of old men in long-sleeved red jackets played the national anthem of the Saharawi republic, the dream of a state the Sahrawis have harboured since the 1970s.

It is with overwhelming hope that these Sahrawis, cut off from civilisation for decades, welcomed Mr James Baker, the former US secretary of state. Sent as a special envoy by the UN secretary general to try to salvage the faltering UN plan for a referendum to choose

between independence and integration with Morocco, Mr Baker ended his fact-finding mission on Sunday in the refugee camps.

"Very tough, although not hopeless," is how he characterised the dispute between Morocco and the Polisario Front, which has led the fight for Saharawi independence since Spain withdrew from the Sahara in 1976. Morocco, which claims the Sahara as part of its territory, controls most of the land.

Although Mr Baker may ask the UN to give its mission one more chance, it is clear he is looking for a quick deal and has little intention of spending years shuttling between Rabat, the Polisario camps, and Algiers, their main backer.

Such a deal means putting diplomatic pressure on all fronts to reach a settlement short of independence, since Morocco, a chartered western ally, will never give up the Sahara.

This reality appears to be sinking in with Polisario leaders. But the people, fed endless promises of nationhood, find it intolerable. To them, Mr Baker is their American saviour.

The 150,000 Sahrawis of the camps live in a remote desert world. Twenty years on, socialist-style organisation has produced an impressive Polisario military bureaucracy



Sahrawis wait in a sandstorm for the visit by James Baker, their dream of nationhood vanishing into the sand

which enables the tribal population to survive, by paying particular attention to education and health.

But the Polisario has focused development of body and mind almost obsessively on the struggle for independence and has crushed all opposition to its leadership. The camp hospitals are rudimentary but clean, the tents orderly, but there are few signs of economic life and of anything lasting - not even a mosque.

The Sahrawis live off aid of about \$10m a year. Most men are soldiers or bureaucrats. The women bear many children to keep the tribes growing and work without pay. Most have not seen a currency for years; many young Sahrawis may not even know that such a thing exists.

The young Sahrawis gather around foreigners with a sad but playful look, not to beg, but to touch their skin and feel the fabric of their clothes. In one part of the camp, the women, heads buried over sewing machines, are hard at work producing national flags.

Young artists nearby paint pictures of torture and deliverance, listening to Egyptian music on an antiquated radio, their only link to the outside world.

The Sahrawis call the harsh area where they live "the desert of the desert". Not much will grow there, despite attempts to cultivate onions and carrots. Nor does Algeria want to see the Sahrawis forever settle on its land. But the Polisario leaders also make no secret of the need to maintain the

Sahrawis' life in a constantly temporary state. "Settlement is the most dangerous thing, it makes us forget the struggle," said Mr Beshraya Bayoune, the "economy minister".

The Sahrawis believe that, after 20 years, they can last as refugees for decades more. "We either get the Sahara or we will die here," said a tribal chief. But ordinary Sahrawis may not know that the water they use is increasingly contaminated and the aid is shrinking in the face of a population growth of 3 per cent to 5 per cent.

The Polisario's military gear is old. The soldiers have not fought for years, and are no match to Morocco's army. There are few countries the Sahrawis can count as friends. Algiers, Rabat's

regional rival, has stood by them. But in the past five years it has been fighting its own war against Islamic militants and is now looking to break its international isolation.

To the leaders' disappointment, Mr Baker spent just a few hours in the Polisario camps, after two days in Rabat and almost another two in Algiers, in addition to a stop in Nouakchott in Mauritania. "No one will ever decide our fate," insist the Sahrawis. But in one of the signs they put up for Mr Baker lies a reality they cannot escape: "Mr Baker, remember," it read, "big fish against small fish."

Roula Khalaf, Tindouf, south-west Algeria

INTERNATIONAL NEWS DIGEST

Ship stands by for Zaire talks

President Nelson Mandela has despatched a South African naval vessel to waters off Zaire as a possible venue for ceasefire talks between President Mobutu Sese Seko and rebel leader Laurent Kabila. African diplomats last night said Mr Mobutu had agreed to attend, and they were awaiting a response from Mr Kabila.

The venue would overcome Mr Mobutu's reluctance to undertake a long journey given his poor health.

The news came as Mr Bill Richardson, Washington's ambassador to the UN, arrived in Kinshasa with a personal message from President Bill Clinton to Mr Mobutu. "The US believes there can be no military solution to the crisis, but rather a negotiated settlement leading to an inclusive transitional government and fair and free elections," Mr Richardson said.

He said he would meet Mr Mobutu this morning and then travel to Lubumbashi, in rebel-held territory, tomorrow to see Mr Kabila.

Michael Holman, London

Rwandan refugees found

Aid workers have found thousands of Rwandan refugees south of the Zairean city of Kisangani, the largest numbers seen since the refugees fled into the jungle last week.

"It seems we are talking about 6,000 or 7,000 people but more are emerging from the forest. This is very good news," an official for the UN World Food Programme said in Nairobi.

But aid officials said that it was virtually impossible to meet a rebel demand to repatriate all Rwandan refugees within 60 days. About 400,000 refugees remain unaccounted for in Zaire since fleeing at the start of civil war in October.

Reuter, Nairobi

Russian delay on treaty

The Chemical Weapons Convention, which comes into force today, has been ratified by 81 states, including four of the five permanent members of the UN Security Council. But the parliament of the fifth member, Russia, has postponed until autumn a vote on the convention, which bans the development, production and use of chemical weapons. The US administration has said it is "extremely disappointed".

Russian MPs said the country could not afford to spend \$6bn destroying its stockpile of chemical weapons, estimated at 40,000 tonnes. Nevertheless, they predicted Russia was likely to ratify the convention when parliament debated the issue again.

Edward Mortimer, London, and John Thornhill, Moscow

NEWS: WORLD TRADE

Turkey signs \$13.5bn deal to import Russian gas

By John Berham in Ankara

Turkey yesterday signed a \$13.5bn deal with Gazprom, the Russian natural gas company, to import gas to help meet its rapidly growing demand for energy. Under the 25-year agreement, Russia will gradually increase exports to Turkey to 30bn cubic metres (cu m) a year by 2010.

Mr Recal Kutun, Turkish energy minister, said: "Turkey imports 6bn cu m of natural gas per year from Russia and starting from this year Turkey will begin importing an additional 500m cu m."

Russia supplies nearly all Turkey's natural gas, transported through a single pipeline via the Balkans. Energy consumption in Turkey is rising by about 10 per cent a year. Mr Kutun said natural gas consumption could rise 25 times to 60bn cu m a year by 2010.

Mr Kutun said Turkey was using 8bn cu m of natural gas a year, 6bn cu m from Russia and 2bn cu m imported from Algeria as liquefied natural gas. But demand was increasing more than expected.

Turkey's economy is growing strongly. Its population is increasing and moving to cities. Demand is also growing because the government has chosen natural gas to fuel a new generation of power stations. Turkey is burning more natural gas as households convert polluting lignite coal-fired central heating to natural gas.

However, Russia and Turkey must expand the pipeline before exports can increase significantly. Turkey signed a memorandum of understanding with Russia last September to raise capacity of the existing Baku pipeline from 8bn cu m to 14bn cu m. They also agreed to build a new 1,160km pipeline with a capacity of up to 16bn cu m per year through eastern Turkey. However, Gazprom is pushing Turkey to accept a \$3.3bn project to build a pipeline beneath the Black Sea.

Turkey is trying to diversify its sources of supply away from Russia, a rival in regional geopolitics. Mr Kutun has complained in the past of falling gas supplies from Russia in the winter.

Turkey has gas import agreements with Iran, Algeria, Nigeria, Qatar, Turkmenistan and Yemen. However, a 23-year, \$23bn natural gas import deal that Mr Necmettin Erbakan, Turkey's Islamist prime minister, signed with Iran last year has met strong US opposition.

There is no pipeline between the two neighbours and Washington has warned it may take action to block attempts to build a link. Ankara is currently evaluating bids to build its section of the line. Mr Kutun, a member of Mr Erbakan's Islamist Refah party, said yesterday that Iran has already begun construction on its section of the line.

EU reviews Iran options as envoys set to return

By Lionel Barber in Brussels

The European Union is set today to order national ambassadors to return to Iran, ending the rupture in diplomatic contacts in the wake of a German court verdict linking the Tehran regime to terrorism.

In an attempt to avoid appearing weak, EU foreign ministers meeting in Luxembourg will consider further measures to reinforce the message that western Europe will not tolerate sponsorship of terrorism.

The measures include restricting visas for Iranian officials, tightening rules on arms sales to Iran, and freezing

government export credit insurance. They fall well short of US demands for economic sanctions against Tehran.

The most difficult task for the EU was to maintain the unity displayed earlier this month when member states withdrew envoys within hours of the German court verdict, EU diplomats said.

The verdict, on April 10, linked for the first time high-ranking Iranian officials to the murder of four Kurdish opposition figures in Berlin five years ago.

The EU will continue to suspend its "critical dialogue", which is designed to put "friendly" pressure on

Iran. This policy has long been a sore point in relations with the US, which considers it a fig-leaf for preserving important trade links with the Islamic state.

In 1995 the EU exported \$11.5bn of goods to Iran, with Germany (\$1.5bn) easily to the fore. France (\$500m), Italy (\$400m) and the UK (\$400m) were also beneficiaries, according to the European Commission.

Iran exported \$17.5bn worth of goods to the EU, chiefly oil and gas. Italy imported \$1.35bn in goods, France \$1.1bn, Germany \$600m, and the UK \$200m over the same period.

European diplomats yesterday said ministers would, at a minimum, agree to send back their ambassadors in a co-ordinated fashion so there was no competition between countries. Each would convey a stiff message to Tehran that the regime had to mend its ways.

But the divisions among the 15 member states are obvious. Britain and Germany are taking the lead in pushing for something more than words, supported by Denmark, the Netherlands and Sweden.

France is more equivocal, emphasising the need to maintain contact with Iran, a key power in the Middle East. Greece and Italy

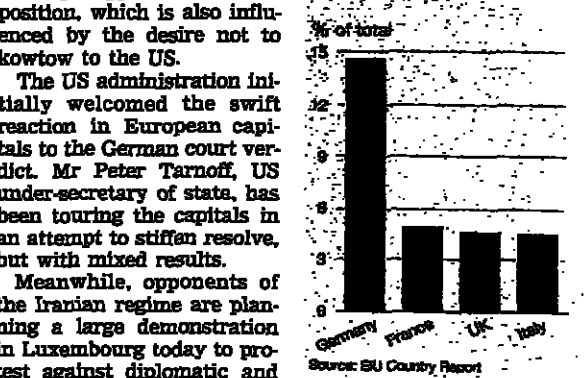
broadly support the French position, which is also influenced by the desire not to kowtow to the US.

The US administration initially welcomed the swift reaction in European capitals to the German court verdict. Mr Peter Tarnoff, US under-secretary of state, has been touring the capitals in an attempt to stiffen resolve, but with mixed results.

Meanwhile, opponents of the Iranian regime are planning a large demonstration in Luxembourg today to protest against diplomatic and commercial links between the EU and Iran.

An EU diplomat said: "There is a lot of noise about

Iranian imports 1995



the need for action, but in the end the economic relationship is what counts."

Kazakhs stumble on road to competition

Charles Clover hears warning signals that Almaty privatisations are creating conflicts of interest

The temptation to privatise for the money and to forget about trying to create competition has always been one that the governments of reforming economies have had to grapple with. In Kazakhstan, many analysts are warning the struggle has been lost.

During the first wave of large-scale privatisation in Kazakhstan, many productive assets - alumina refineries, iron mines, phosphate plants - were sold or rented to foreign trading companies which used the facilities as a source of cheap materials for their downstream operations in other countries.

Now that the privatisation programme is focused on utilities - the country's electricity grid and gas pipeline system - the Kazakhs appear willing to hivel off their natural monopolies to foreign companies in circumstances that some analysts warn are creating a conflict of interests.

In both cases, the utility will be granted as a concession to a major supplier - in the case of the electric grid, to a supplier of power stations, and in the case of the gas pipeline system, to a potentially big source of gas. The danger of giving control of a utility to its supplier, analysts say, is that it can use its control of this infrastructure to pressure other suppliers, and use control of supply sources to pressure the utilities' customers.

Earlier this month Asea Brown Boveri, the Swiss/Swedish engineering group, was awarded a 25-year concession to operate the Kazakh high-voltage grid which transmits 60 per cent of the country's electricity. ABB is also building three 320MW power stations in Kazakhstan, and has plans for many more.

Two weeks before the concession was awarded, a decree was issued by Mr Akezhan Kashegeldin, the Kazakh prime minister, which required the grid operator to "buy power in

priority order from Kazakh producers who are building new power stations".

"The timing," said one western businessman, "was a bit odd". The decree automatically disqualified ABB's competitor, National Grid, a UK company which had earlier said it would not buy or sell electricity. It also meant ABB would be buying power from itself first, and marketing it along with electricity from other stations in a "pool" arrangement.

This, some analysts have warned, could mean higher prices for consumers, since there would be little to constrain the distributor if it was, at the same time, one of the main generators.

ABB believes the combined-cycle plants it is building will mean cheaper power because they are more efficient than existing Soviet-built plants. However, others feel the power could be up to twice as expensive because of the capital costs of building the plants.

Mr Michael Robertson, a spokesman for ABB, said the company was primarily a supplier of equipment, and did not seek to be a generator. "We only take equity in a power plant in order to be the builder. Once the plant is finished, then we try to sell it."

Mr Keith Howlett, a senior vice-president at ABB, was quoted in the April 4 issue of Independent Power Report as explaining that the group was interested in the Kazakh grid because "whoever controls the grid system controls who is going to build generation and where".

Mr Robertson, commenting on Mr Howlett's statement said: "That is a bit blunt. We obviously want to supply the equipment in Kazakhstan - that is what we do. If we have to take on other roles to further that aim then we do that as well." ABB has contracted Voev, the East German electricity grid operator, to run

Kazakhstan's grid.

"The whole thing is worrisome from an anti-trust point of view," said a western lawyer. "The point of privatising is to create a competitive market; the Kazakhs are doing it just to bring in investment."

Mr Robertson said, however, that the Kazakh customers would protect themselves through regulation by the anti-monopoly committee, which sets tariffs, and through a clause in the decree which stipulates that power be sold at "a fair market price".

No Kazakh authority would comment. But in a recent interview, Mr Viktor Khrapunov, the energy minister, was quoted as saying: "We are ready to collaborate with both our own as well as foreign 'money-bags' since at the present it is the only way to make Kazakhstan an energy-independent state."

Meanwhile, Bidas, the Argentine oil company, is in exclusive negotiations with the Kazakh government for

a 15-year concession to operate the country's natural gas pipeline system.

Again, industry analysts warn of a conflict of interest. Bidas, they point out, is at loggerheads with the government of neighbouring Turkmenistan, which has been seeking to revise its contracts with Bidas. Half of the Argentine company's certified 1.5bn barrels of oil and gas reserves are in Turkmenistan. Turkmenistan's gas supplies pass through Kazakhstan on their way to Russia and Europe.

"You think it's a coincidence that they want this pipeline?" said one westerner involved in the negotiations. "They get control of the valves for Turkmenistan's gas."

However, Mr Malcolm Hurlston, a Bidas representative, said: "Bidas's arrangements with Kazakhstan in connection with gas pipelines, and Turkmenistan as the country's leading investor, are entirely separate."

UK banks' unreadiness for Emu virtually rules out early membership

Banking on Britain staying out



Preparing for Emu

One of the most revealing statements about Britain's position on the European single currency has come from Barclays Bank, which said last week it would not prepare its UK retail branches for the coming of the euro. Mr Andrew Buxton, chairman, said it was not in the bank's interests to have "converted our counters so that they can run on dual currencies".

His comments were a sharp contrast to the wait-and-see rhetoric of the Conservative government and the opposition Labour party. Whatever the outcome of Thursday's general election, British government policy

on Emu is likely to remain opaque. But Mr Buxton appears to be in no doubt that Britain will not take part in European monetary union in 1998.

Moreover, his comments could become a self-fulfilling prophecy because lack of preparation by the largest banks itself constitutes an obstacle to participation. The progress of Emu preparations and the government's final decision form a mutually reinforcing mechanism. If banks are ill-prepared, even the most pro-European commentators would find it hard to argue that Emu was in the UK's best economic interest.

Barclays said its preparations for Emu in its whole-sale operations - transactions with other banks and financial institutions - are running on full steam. This is true also of other banks,

although there are some differences of detail. One UK banker said his bank took a perceptibly different line: "Of course, you've got to be ready for wholesale, there can be no question."

"If you go down the line, then you find there are some difficult areas in corporate banking that straddle wholesale and retail. But there is no doubt from our discussion with our customers that we have to provide them with a pretty adequate euro service, whether we are in or out," he said.

A senior UK official admitted recently that German banks and companies were better prepared than their UK counterparts and this is directly linked to the certainty of Germany's membership of Emu. He said that Britain would be well prepared on the wholesale side,

which "is all that we care about". The answer reflects expectations that Emu will go ahead, but without the UK.

Privately, UK bankers acknowledge they may have a problem if the government decided to join Emu in 1999 after all. One banker closely involved with Emu preparations said: "I have given up worrying about this. I'll just get another job."

Barclays claims it has an emergency procedure that it can invoke at any time. A German banker ridiculed the idea because Emu is not just about payment systems, accounting and dual currency procedures, but also about know-how and training. "This is going to be very risky for the British," he said. "If we hadn't prepared as much as we had, I think our customers would have left us in droves to join

banks that have made the preparations." He said that from the first day, every customer and every local branch would have to have the capability to handle payments in both euros and national denominations.

German banks are spending vast amounts of money to get ready for Emu. Deutsche Bank has budgeted DM400m (\$230m). Much of this goes on training staff in local branches so that they are prepared to face questions from bewildered customers after January 1, 1999.

Some of this investment goes on training customers through a series of workshops throughout the country. These workshops deal with technical aspects and also with strategy.

In Britain, meanwhile, the uncertainty surrounding membership of Emu has left its traces even in the whole-

sale market, according to the Bank of England. In its latest report on the practical issues arising from Emu the Bank gave an uncharacteristically blunt warning against complacency.

It said banks ought not to follow the latest fashions in public opinion, and fool themselves into believing the Emu might be postponed. "For planning purposes, the only prudent assumption is that Emu will begin on time," it said.

The Bank also warned that it was easy to underestimate the length of time it might take to change even moderately complex information technology systems, and urged financial institutions to begin work in the next few months, or risk not being ready for Emu.

Wolfgang Münchau



Barclays chairman Andrew Buxton: It is not in the bank's interests to have 'converted our counters so that they can run on dual currencies'.

German towns and cities wake up to euro-consciousness

By Peter Norman in Bonn

Germany is a land of euro-paradox. A euro-enthusiast chancellor is confronted with a citizenry that profoundly mistrusts the single currency, and yet the Bonn government's publicity campaign for the euro has been modest to the point of near-invisibility.

So far, Chancellor Helmut Kohl has relied almost entirely on the banks to drum up support for the euro. There are signs, however, that this will change.

Acceptance of the single currency will also depend on the success of Germany's towns and cities in introducing the euro. It is at the local level that the average citizen comes most into contact with government in a relationship that usually involves money.

German local authorities have only recently begun planning for the single currency. Information is in short supply. Local government officials complain of a lack of clear guidance from federal or state authorities.

The sole practical guide to help local authorities tackle the conversion was produced late last year by the German

Finance ministry says population's tax bills are likely to remain in D-Marks until 2002

German citizens are unlikely to have to worry about paying tax bills or social security contributions in euros until 2002, despite the determination of Chancellor Helmut Kohl that European monetary union should start on time three years earlier, writes Andrew Fisher in Frankfurt.

But it recognises that authorities might not be ready for this until national currencies of Emu members are finally replaced by the euro. The ministry said the three-year

transition period between Emu's start and the full introduction of euro notes and coins in 2002 would be able to do so.

Shoppers, the electrical and electronics group, for example, has said it will draw up its accounts in euros from 1999. It has also said it would like to be able to pay its taxes in euros as soon as possible.

City treasurers will have to ensure that the euro is understood by citizens.

Already problems are looming. A shortage of capacity in German software houses could make it difficult for all local authorities to change their computer programmes in good time.

In the capital, Bonn, Mr Ludger Sander, the city treasurer, estimates that it will take six months and some DM1m (\$600,000) to convert 70 data processing programmes to euros. These and other costs will squeeze a city budget that is under such pressure that some

street lights are turned off at night. On the other hand, the euro could bring advantages. Mr Jochen Diekmann, the Städtetag chief executive, expects that the greater transparency it will create in the EU's single market will produce a more competitive environment when tendering for goods and services.

More generally, introduction of the euro in Germany should provide belated encouragement for a cashless society as local authorities promote the use of rechargeable electronic payment cards to cover small outlays such as tram fares.

Local authorities are beginning to organise their lobbying on the euro. The Städtetag has told the Bonn finance ministry of its strong

opposition to an extended six-month handover period in 2002 when national notes and coins are due finally to be replaced by the euro. It has also warned that double pricing in D-Marks and euros would be financially and technically unacceptable to its members.

With Cologne, Münster, Frankfurt am Main, Cottbus and Bremen, Bonn is one of

six cities in eastern and western Germany chosen by the Städtetag to form its euro avant garde.

Bonn sees itself as a "pilot city" for the single currency. It has appointed a "euro-coordinator", Mr Bernhard Gehrman, who is currently conducting a survey of city departments before drawing up a detailed plan on the timing and cost of conversion.

However, Mr Gehrman has found that introducing the euro will be more complex than he expected. His conversion master plan is now likely to be ready for the city authorities in the summer rather than the end of this month as planned.

Bonn's objective, according to Mr Gehrman, is to carry out all changes "in such a way as to meet the needs of local citizens". It sounds a modest enough aim, but success in achieving it could be crucial to overcoming Germany's mistrust of the single currency.

Flynn calls for employers and unions to set their own agenda

By Robert Taylor, Employment Editor

European Union integration will not be complete without the creation of a Europe-wide industrial relations system in which trade unions and employers exercise joint power and responsibility, according to Mr Padraig Flynn, the European social affairs commissioner.

In a speech he intends to make today in The Hague, Mr Flynn will argue that future social legislation should come not from governments but through dialogue between the European trade unions and employers.

This does not mean creating a "single, harmonised system of industrial relations to replace the way we do things now in different member states", he argues. But he wants unions and employers to "make their real views known and to

develop their own initiatives".

In his opinion this is the way the EU should develop so that there can be "a better balance between economic and social objectives". "Monetary union is knocking loudly at our door," he says. "But a Union without a strong social dimension cannot be a Union worthy of the name, and, without it, the single market and Emu [economic and monetary union] will both face an uncertain future."

His call will be welcomed by the European Trade Union Confederation, but is likely to face criticism from some governments.

The existing social dialogue between the trade unions and employers - in which representatives of both meet in Brussels - was introduced in 1985 by the then European Commission president, Mr Jacques

Delors. In his speech, Mr Flynn believes it has proved its worth and now has a strategic place in EU social policy development. The so-called social partners system began as a consultative process but has now been transformed into a decision-making forum.

He will argue today that other Europe-wide professional organisations should be asked to join the dialogue and future consultations should be more flexible, with wider representation.

The agreement on unpaid parental leave was the first tangible development of the union-employer co-operation and Mr Flynn expects more such accords as an alternative to passing legally enforceable directives through member state governments. Currently, both sides are trying to reach a consensus on common legal rights for part-time workers.

Mr Flynn will tell his audience that the Commission is keen to see more voluntary negotiations where unions and employers can make deals and framework agreements in areas which have been the responsibility of member states.

He wants to see developments at industry sector level through joint union-employer initiatives which could cover cross-industry policy as well as inter-professional agreements in specific industries as has happened recently in the cleaning and rail industries.

"The Commission is keen to promote and develop the sectoral dialogue, particularly in its negotiating role," he says.

"Equally, we want to maintain and extend its other important role, which is that of informing and consulting sectoral employers and unions on EU policies."

Ministers agree to increased co-operation across Union

Closer links in crime crusade

By Emma Tucker in Luxembourg

European Union justice and home affairs ministers yesterday agreed to step up co-operation in the fight against organised crime in Europe, signalling their recognition that efforts to stem the proliferation in sophisticated, cross-border crime have not gone far enough.

Meeting in Luxembourg, the ministers unanimously adopted a report which warns that efforts to co-ordinate investigations in areas such as money laundering, drug trafficking and terrorism are always one step behind the criminals.

The report was drawn up by a group of senior justice, police and customs officials. Its 15 guidelines and 30

recommendations will be presented to heads of state in June, when they meet in Amsterdam to revise the EU treaty.

"If Europe is to develop into an area of freedom, security, and justice, it needs to organise itself better and to provide strategic and tactical responses to the challenge facing it," the report says. "This requires a political commitment at the highest level."

The recommendations include a commitment to examine areas where harmonisation of judicial and criminal laws would have a practical effect on Euro-crime. It calls on the Council of Ministers to produce concrete proposals by mid-1999.

Britain has been at the forefront of resistance to any harmonisation of laws in the

sensitive areas of justice and home affairs. However, officials yesterday said Britain would not be opposed to harmonisation in areas where it was necessary and would have a real impact on effective co-operation.

Other recommendations include:

- Reinforcing Europol, the European police intelligence agency, by giving it the right to facilitate and support investigations carried out by national police forces and for Europol staff to be included - in a support capacity - in teams of national police officers. Europol would also be allowed to ask national police forces to carry out investigations.

- More effective implementation of instruments already adopted.

- Closer co-operation with

third countries, in particular countries hoping to join the EU.

The guidelines also stress the importance of member states co-ordinating their police forces effectively - a weakness recently revealed in Belgium following the bungled handling of a series of paedophile cases. The report calls for states to set up a single contact point to facilitate liaison with others.

In another key recommendation, it urges the establishment of a judicial co-operation network to be set up at a European level, permitting the exchange of information between national authorities.

At the moment, operations that are successfully co-ordinated by police authorities often fall apart at the judicial stage, where co-operation is weak.

Gloom at record levels in Japan

By Gillian Tett in Tokyo

Japanese public disillusionment has risen to record levels, amid growing political and economic unease, according to a survey from the prime minister's office.

Some 55.5 per cent of Japanese now believe the country's future is "bleak". The level of pessimism is the highest recorded since the annual survey started in 1971. The previous lowest point was reached in 1995, when national morale plummeted after the Kobe earthquake and the deadly gas attacks in Tokyo's subway system.

The survey, which covered 10,000 people, shows that only 24.1 per cent of the population feel that Japan is "heading in the right direction".

The economic unease exposed by the survey is striking. Japan is emerging from several years of sluggish growth after the collapse of the 1990s "bubble" and it recorded the highest level of growth among the Group of Seven leading industrialised countries in the last fiscal year.

Yet in recent months the Japanese media have been dominated by discussions about Japan's national "decline" - a sharp contrast to the mood of national self-confidence seen in the country in the 1980s.

The key reason for the gloom, cited by 54 per cent of respondents, is Japan's fiscal deficit.

This has been rising sharply in recent years and has been cited by the government as the key reason for an increase in consumption taxes earlier this month.

Respondents also blamed the general economic situation, the cost of living and medical care as reasons for their pessimism.

Concern is also growing that the government will not be able to meet its pension liabilities, as the number of pensioners increases quickly.

And public unease has been fuelled in recent months by banking failures and the collapse last week of Nissan Mutual Life, one of Japan's life insurance companies.

Confidence in the government is also extremely low, in spite of the recent general elections.

Some 77 per cent of respondents argued that government policies do "not reflect the national will" of the people.

Japanese life group faces probe

By Gillian Tett in Tokyo

The Ministry of Finance yesterday launched an investigation into the Japanese insurance company, Nissan Mutual Life, after it ordered it to suspend business last Friday.

The probe will attempt to ascertain the level of bad debts at the group, which sent shock waves through Japan's financial community after becoming the first life insurance company to fail in Japan since the second world war.

Market concern about the

episode - which marks a test case for the Japanese authorities - has been fuelled by revelations that Nissan Mutual Life's problems had been known to some of its auditors and government officials for several years.

Meanwhile, the degree of protection that will be offered to policy holders, remains uncertain. The Ministry of Finance pledged last Friday that all policy holders would be protected. And some government officials are seeking to persuade other life insurers to assume

responsibility for Nissan Mutual Life's commitments and its assets.

However, it remains unclear whether this plan will be accepted by the industry, and speculation is rising in parts of the life insurance industry that Nissan Mutual Life's policy holders may be forced to accept lower payments in the future.

After the Ministry of Finance ordered the closure of the group on Friday, Nissan Mutual Life said that it faced a capital deficit of some ¥200bn (\$1.6bn). This

partly reflected a surge in bad debts, which totalled ¥42.3bn at the end of September.

Meanwhile, the company - which has assets of ¥2.167bn - expected net losses to reach ¥52.5bn in the year to March.

Detailed financial information about the group is not available, since Nissan Mutual Life - like the rest of Japan's financial institutions - has resisted full disclosure.

However, some analysts yesterday suggested that the real level of bad debts was

likely to be far higher than revealed, because the previously published accounts had not revealed the degree of financial problems to which the company has now admitted.

Ministry of Finance officials yesterday said they had been aware of the company's deteriorating financial position for several years. However, officials argue that they had delayed closing the group since they hoped that its business would recover.

Yasudaichi to close Milan office, Page 23

Burma - the sick man gets sicker

The day after a prohibition on new US investments in Burma was announced, the heads of several oil companies operating in the country sat down to dinner at one of Rangoon's new luxury hotels.

They were salivating - but not because of the succulent lobster on offer that evening.

Instead, they were discussing how to carve up exploration rights held by US companies, rights the US companies will most likely have to give up under the new rules - the climax of a campaign whose most distinguished advocate has been Burma's democracy leader, Ms Aung San Suu Kyi.

In the absence of the US companies, "it's all there for the taking. No project will not be taken up," says an executive with a Malaysian conglomerate.

His comment echoed the opinion of the Burmese business community, and that of the military government, which has said: "Myanmar [Burma] has opened the doors to outside investments and its abundant natural resources will benefit all those who come to invest."

"We can only feel sorry for the US companies, because they will not get a second chance to invest in Myanmar if opportunities are taken

over by companies from nations with consistent foreign policies."

Yet outside the oil and tourism sectors, international companies are hardly rushing to invest in Burma, scared off by poor infrastructure, a cumbersome dual-exchange rate system and the threat of consumer boycotts in the west.

A trickle of Asian and European investment to replace the potential lost flows from the US is not enough to prevent a sick economy deteriorating even further. Inflation, named over a year ago, is now running at more than 30 per cent and the price of rice has doubled in less than a year.

Without a "one-shot"



Aung San Suu Kyi: has long advocated trade sanctions

evaluation of the currency by 99 per cent, coupled with structural reforms, economic growth will fall to 4 per cent (from 6.1 per cent) by the year 2000, the current account deficit will rise 14 per cent, and foreign exchange reserves, now at their lowest since the military junta took office in 1988, will cover just over one month's imports, the International Monetary Fund predicts.

Debt service arrears accumulate, with over \$1.5bn outstanding at the end of the last fiscal year. Exports have stopped growing, as rice shipments, once expected to be the cornerstone of Burma's export drive, have virtually stopped.

Local businessmen and

economists say what is keeping the economy moving, and the shelves and showrooms stocked with expensive foreign goods despite an official ban on non-essential imports, is the dual benefits of inflows from the underground economy and smuggling, which US sanctions can do nothing about.

With the military signing ceasefires with ethnic groups operating along Burma's borders, proceeds from gems, jade and heroin which these groups control are now being invested inside Burma, rather than in Thailand, Taiwan and Hong Kong as was previously the case.

In fiscal 1995-96, about \$42m of hard currency not accounted for in official

investment figures flowed into the country, reversing previous years of net unrecorded outflow, according to figures from the IMF and World Bank.

Much of this is being spent on supposedly restricted imports. An active secondary market is operating in special import privileges for favoured investors; the government's own social organisation, the United Solidarity and Development Association, routinely imports cars from neighbouring countries. Trading companies bring goods across from Thailand by truck and from Malaysia by boat.

A key component of this system is the ability to settle accounts overseas. In a side street in downtown Rangoon, an Indian broker offers to take kyat (the Burmese currency) at below the black market rate in Rangoon and provide hard currency to any bank account worldwide, even the US.

The broker thinks his business, which relies on the continued muddling along of the Burmese economy, is being invested inside Burma, rather than in Thailand, Taiwan and Hong Kong as was previously the case.

In fiscal 1995-96, about \$42m of hard currency not accounted for in official

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Canberra plan to clarify land title law

By Nikki Tait in Sydney

Mr John Howard, Australia's prime minister, announced yesterday his conservative Liberal-National government would legislate a "10-point" native title plan, in an effort to end the confusion over Australian land tenure.

He said the legislation would be drawn up in Canberra in "close consultation" with state governments "because it intimately involves the use of state mechanisms". Mr Howard also said that Aboriginal representatives would be consulted.

The confusion over Australian land tenure stems from a High

Court ruling last December. This said that native title rights could exist on land already subject to a pastoral lease - although it also stressed that if there was any conflict, the pastoral leaseholder's rights should take precedence.

About 40 per cent of Australia is covered by pastoral leases and although the High Court ruling did not immediately threaten any farmer's land tenure, it did raise questions over what activities could be carried out without consulting Aboriginal native title claimants.

Details of the 10-point plan have yet to be released. But its broad aim is to ensure that pastoral activities

can continue on land which is subject to a pastoral lease. It would tighten the threshold test for native title claimants and ensure that Aboriginal groups have no right to negotiate over water management or timber extraction.

The 10-point plan does not include a blanket extinguishment of native title rights on pastoral lease land - in contrast to the demands of Australia's powerful farming lobby. As a result the Queensland state government declined to back Mr Howard's plan yesterday, after a day of talks between the prime minister and state leaders.

The United Graziers' Association

said it was "bitterly disappointed" that the federal government was not pursuing the extinguishment option. "Rural landholders feel betrayed by Mr Howard's decision," said Mr Larry Acton, its president.

The Queensland Chinese Community Voice, which claims to represent about 30,000 Chinese-Australians, yesterday said it was objecting to the Australian Electoral Commission about the Pauline Hanson One Nation party. The new party has been formed by Ms Pauline Hanson, the outspoken independent federal MP who criticises Asian immigration and objects to money spent on Aboriginal welfare.

ASIA-PACIFIC NEWS DIGEST

Japanese output falls by 1.5%

Japanese industrial production fell by a less-than-expected 1.5 per cent from February to March and is projected to recover strongly in the following two months because of increased domestic demand, the Ministry of International Trade and Industry said yesterday. This shows output up by 3.1 per cent in the first quarter compared with the previous quarter, or 6.6 per cent ahead of the same period last year.

Output is set to rise 1.8 per cent, month on month, in April and 1.1 per cent in June, bringing the increase in the second quarter to 7.4 per cent compared with the second quarter of last year. The ministry bases its forecast of a continued recovery on the fact that inventories of unsold stocks and materials declined by an unusually large 2.6 per cent from February to March. That means any increase in demand will quickly feed through to higher output, rather than being supplied from surplus stocks.

William Dawkins, Tokyo

Bond ex-director pleads guilty

Mr Peter Mitchell, a former director of Mr Alan Bond's Bond Corporation, yesterday pleaded guilty to his part in the late-1980s described as Australia's biggest corporate fraud. Mr Mitchell, now based in the US, pleaded not guilty to conspiring to defraud Bond Resources after it was bought by Bond Corporation in 1988, but pleaded guilty to four counts of acting improperly as a director.

Mr Alan Bond, one of the country's most prominent businessmen in the late-1980s, has pleaded guilty to his part in the fraud, and is serving a jail sentence. Mr Tony Oates, another former Bond Corporation director also charged over the same matter, has been held by Polish authorities, and awaits extradition.

Nikki Tait, Sydney

Malaysian politician fined

A prominent Malaysian opposition politician was found guilty yesterday of sedition and spreading false news in a ruling which could mean the loss of his parliamentary seat. Amnesty International, the human rights group, had described the charges against Mr Lim Guan Eng (pictured left), youth leader of the Democratic Action party (DAP), the largest opposition party, as politically motivated. He was fined M\$15,000 (\$8,000) for violating the Sedition Act and the Printing and Publications Act. A fine of more than M\$2,000 disqualifies a person from being an MP.

Mr Lim had remarked during a court case in 1995 that a 15-year-old girl, with whom a leading politician was accused of having sex, was being treated like an imprisoned victim because she was kept in police custody for more than a week. The prosecution contended the statement was seditious because it seemed to accuse police of illegally detaining the girl.

No charges were brought against the politician, Mr Rahim Tamby Chik, then a close associate of Dr Mahathir Mohamad, the prime minister, because of what was said to be insufficient evidence.

James Kyng, Kuala Lumpur

Suicide of Korean banker

Korea's Hanbo scandal yesterday claimed its first death with the suicide of a senior banker recently questioned about loans to the collapsed steel group. Mr Park Suk-tae, a former managing director of Korea First Bank, was found dead by hanging at his Seoul home. He had recently appeared at a parliamentary committee into alleged government pressure on banks to lend to the Hanbo, which declared bankruptcy in January.

Family members said Mr Park had been depressed since he quit Korea First, Hanbo's main creditor, in March after a warning from the Office of Bank Supervision that the bank loans to Hanbo were not backed by sufficient collateral. The scandal has shaken the government of President Kim Young-sam, with 10 politicians and businessmen on trial for corruption.

John Burton, Seoul

The Not Survey for World Equity Markets

- > On the 28th of January Reuters journalists filed more than 13,000 stories using over 900,000 words around the globe.
- > Only significant stories make the daily ranking of the global "top 100" most accessed Reuters stories.
- > On the 28th January, the three stories filed by Reuters on the European Larger Company Survey were ranked 74th, 87th and 89th.

	Number of companies	Market Cap \$bn	Fund Management Groups	Sol side Analysis
UK Larger Company	350	1,415	100	1,740
UK Smaller Company	750	115	100	1,224
Continental European Larger Company	350	2,374	100	2,756
Global Emerging Market Company	1,200	688	150	1,689
US Larger Company	500	5,972	150	Pub. June

The 1997 UK Larger Company survey, published on Tuesday 15th April, is now available for purchase.

If equities are your business, call Tempest on 0171 638 8789 to order your copy

Warning on emission curb costs

By Nikki Tait and agencies

The Australian Bureau of Agricultural and Resource Economics (Abare), the government-owned forecasting agency, yesterday released figures indicating greenhouse gas emission targets being advocated by the US and Europe could cost every Australian A\$9,000 (\$5,000) a year by 2020.

The analysis also indicated that the per capita cost on Japan could be as high as A\$15,000 (\$9,100) a year.

The figures were released hours before a visit to Australia by Mr Ryutaro Hashimoto, Japan's prime minister. Australia's prime minister, Mr John Howard, confirmed that he planned to raise the emissions issue in talks with Mr Hashimoto.

"The considerations around climate change impose one of the more significant medium-term economic threats this country has faced for a long time," Mr Howard said.

According to Abare, the Australian estimate is based on the target agreed in Rio de Janeiro of reducing carbon dioxide emissions to 10 per cent below 1990 levels by the year 2020. Australia has argued that the costs of such an emission abatement programme would fall unevenly on different countries.

"Abare estimates that uniform abatement targets will impose significant costs on Australian industry, leading to a loss in competitiveness in key areas such as non-ferrous metals (principally aluminium) and iron and steel products," said Mr Brian Fisher, Abare's executive director.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (ECU). The ECU exchange rate shows the number of national currency units per ECU. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES					JAPAN					GERMANY					
Exports	Imports	Current account balance	ECU rate	Effective rate	Exports	Imports	Current account balance	ECU rate	Effective rate	Exports	Imports	Current account balance	ECU rate	Effective rate	
1986	220.0	-140.8	-153.4	0.9836	81.4	208.9	94.2	87.2	165.11	127.7	248.5	53.5	41.8	2,127.9	108.6
1987	231.2	-131.8	-144.1	1.1541	71.9	194.7	63.7	75.5	168.95	138.8	254.4	58.6	46.6	2,077.0	114.1
1988	272.5	-100.2	-107.4	1.1833	67.0	218.7	79.8	67.0	151.51	153.7	272.6	61.4	42.4	2,078.9	114.1
1989	330.2	-99.3	-94.3	1.1017	70.0	245.5	70.6	53.4	151.93	147.0	310.1	65.7	51.5	2,069.1	113.3
1990	303.0	-79.3	-72.1	1.2745	66.7	220.3	50.0	29.5	163.94	132.5	324.8	51.8	38.3	2,053.7	111.1
1991	340.5	-63.5	-61.0	1.2951	65.7	249.4	77.7	57.4	184.44	143.7	327.6	51.1	34.6	2,040.0	117.1
1992	345.9	-65.2	-47.5	1.2957	64.4	258.6	56.2	86.7	164.05	150.7	330.9	56.9	35.0	2,018.7	120.6
1993	387.3	-98.7	-85.4	1.1705	68.3	300.3	118.6	112.4	130.31	191.0	325.2	30.5	-12.1	1,933.7	125.3
1994	432.3	-127.0	-125.2	1.1857	65.1	325.0	121.7	110.5	120.95	194.9	360.3	37.5	-17.8	1,919.8	125.6
1995	452.8	-122.8	-114.5	1.2928	61.2	331.1	101.3	85.3	121.43	204.8	404.4	45.9	-18.3	1,869.9	122.1
1996	498.6	-133.1	-131.5	1.2526	64.4	319.8	66.6	62.6	136.24	177.7	416.4	52.2	-11.7	1,844.4	126.6
1st qtr.1996	121.3	-30.9	-28.1	1.2570	63.7	79.1	17.7	13.4	132.82	182.0	103.0	11.6	-0.8	1,855.5	130.6
2nd qtr.1996	126.2	-33.0	-32.6	1.2362	64.6	81.7	16.3	12.9	132.92	180.8	101.6	11.5	-2.7	1,882.1	128.2
3rd qtr.1996	122.3	-28.6	-27.5	1.2813	64.4	78.7	15.7	13.2	137.43	178.9	104.8	14.5	-6.7	1,888.4	128.7
4th qtr.1996	128.8	-28.6	-33.0	1.2557	65.0	80.4	17.0	13.1	141.72	172.2	107.0	14.5	-1.5	1,921.7	127.0
March 1996	41.0	-9.8	n.a.	1.2541	63.8	26.2	7.2	5.1	132.84	181.9	34.4	4.0	1.1	1,852.8	130.1
April	41.6	-10.6	n.a.	1.2421	64.3	26.7	3.9	3.5	133.12	180.7	34.2	4.3	-0.7	1,871.1	129.0
May	42.8	-11.8	n.a.	1.2282	64.6	28.5	6.0	4.8	130.67	183.1	33.8	4.3	-1.8	1,882.6	127.7
June	41.9	-10.5	n.a.	1.2393	64.8	26.8	6.3	4.6	134.91	178.2	33.6	3.0	-0.4	1,892.1	127.8
July	40.0	-12.5	n.a.	1.2563	64.8	26.7	4.6	4.3	137.21	178.8	34.4	3.5	-3.2	1,888.8	128.5
August	41.3	-11.4	n.a.	1.2898	64.1	26.6	6.2	6.1	136.84	178.2	34.6	4.4	-3.2	1,880.6	128.2
September	41.0	-12.7	n.a.	1.2587	64.7	25.4	4.9	2.8	138.24	175.7	34.8	4.6	-0.3	1,885.7	128.3
October	43.0	-10.2	n.a.	1.2638	65.0	27.1	5.5	4.4	140.92	172.8	35.8	4.9	-1.2	1,819.7	127.2
November	43.0	-10.1	n.a.	1.2706	64.4	27.1	6.7	4.7	142.64	171.3	35.8	4.1	-0.1	1,829.7	127.3
December	42.8	-12.3	n.a.	1.2428	65.5	26.2	4.8	4.1	141.58	170.2	35.7	4.6	-0.5	1,929.7	125.2
January 1997	43.1	-14.5	n.a.	1.2105	66.7	28.4	5.9	5.8	142.83	166.5	34.6	3.3	-4.8	1,941.4	125.3
February	47.3	-13.8	n.a.	1.1587	68.9	27.5	4.1	4.1	142.52	162.3	34.6	3.3	-4.8	1,941.4	125.3
FRANCE					ITALY					UNITED KINGDOM					
Exports	Imports	Current account balance	ECU rate	Effective rate	Exports	Imports	Current account balance	ECU rate	Effective rate	Exports	Imports	Current account balance	ECU rate	Effective rate	
1986	127.1	0.0	3.0	6.7946	102.7	99.4	-2.5	-1.1	146.15	101.4	109.3	-14.2	-1.3	6.7078	91.1
1987	128.3	-4.6	-3.7	6.9266	102.7	101.0	-7.7	-2.1	149.43	101.1	112.3	-16.4	-6.8	6.7047	90.8
1988	141.9	-4.7	-3.4	7.0354	100.6	103.3	-8.9	-6.0	156.98	97.7	120.9	-32.3	-24.8	6.6643	94.1
1989	160.3	10.3	7.0168	6.883	102.8	113.7	-13.3	-9.2	162.82	98.6	137.0	-36.8	-33.3	6.5978	91.1
1990	170.1	-7.2	-7.2	6.9202	103.6	108.6	-3.9	-3.9	160.32	100.1	142.3	-26.3	-26.3	6.5944	98.9
1991	175.4	-4.3	-4.9	6.9621	102.1	137.0	-10.5	-17.7	153.13	98.7	147.7	-14.7	-1.4	7.0022	97.9
1992	168.2	4.5	10.5	6.9426	104.4	137.8	10.0	-21.5	169.15	98.7	145.9	-17.8	-13.8	6.7389	87.7
1993	179.5	12.2	9.0	6.9843	104.4	144.9	18.1	7.7	163.87	80.5	156.2	17.9	-12.2	6.7780	79.9
1994	198.8	12.9	5.4	6.5565	110.1	161.4	18.8	3.1	190.68	79.0	174.1	-14.0	-1.1	6.7401	84.1
1995	222.1	15.9	10.9	6.4480	113.4	178.6	21.7	20.1	210.64	69.4	186.9	-14.1	-4.6	6.8190	76.7
1996	239.5	17.7	16.6	6.4092	113.3	196.6	35.3	21.0	193.71	73.2	209.6	-15.2	-0.0	6.8026	77.7
1st qtr.1996	58.0	4.7	6.1	6.3381	113.9	47.6	4.9	-1.2	196.73	73.8	49.6	-4.5	-1.6	6.8206	75.1
2nd qtr.1996	56.8	5.1	3.3	6.3772	114.6	51.3	5.1	3.2	192.75	74.1	51.2	-3.7	-0.9	6.8113	76.1
3rd qtr.1996	56.2	5.1	3.7	6.4242	113.2	47.4	11.3	8.8	191.84	77.7	51.4	-3.6	-0.4	6.7645	76.1
4th qtr.1996	58.1	4.1	3.3	6.4976	112.5	52.3	9.4	2.9	191.12	76.6	54.9	-3.4	1.1	6.7670	76.1
March 1996	19.9	1.8	1.6	6.3434	113.7	17.8	2.7	-2.1	199.91	74.0	18.7	-1.3	n.a.	6.8212	75.9
April	18.4	0.5	0.9	6.3889	113.3	16.2	2.3	-2.4	194.99	74.0	16.8	-1.5	n.a.	6.8201	75.9
May	19.3	1.9	1.0	6.3707	113.7	18.1	3.9	4.0	191.72	76.2	17.1	-1.1	n.a.	6.8106	76.0
June	18.5	1.5	1.2	6.4121	113.0	17.1	4.3	4.3	199.85	76.8	17.3	-1.1	n.a.	6.8081	77.0
July	19.1	1.6	0.6	6.3565	113.7	19.7	6.3	2.7	191.81	76.6	17.3	-1.1	n.a.	6.8106	76.0
August	19.5	2.1	1.6	6.4231	113.2	19.1	3.5	5.4	192.03	76.4	16.9	-0.8	n.a.	6.8105	76.1
September	19.8	1.8	2.4	6.4322	113.8	16.7	1.5	0.7	191.32	77.0	17.3	-0.4	n.a.	6.8070	77.0
October	18.8	1.8	1.8	6.4770	112.8	19.1	4.0	1.5	191.40	76.5	18.2	-0.9	n.a.	6.8104	76.0
November	18.6	1.0	1.0	6.5001	112.6	17.1	3.0	1.6	192.26	77.2	18.0	-0.9	n.a.	6.8104	76.0
December	19.7	1.3	1.6	6.5158	111.9	16.1	2.4	-0.1	189.95	78.1	18.7	-1.1	n.a.	6.7495	79.4
January 1997	19.1	1.8	3.2	6.5512	112.3	14.3	0.9	-3.9	196.87	78.2	16.7	-0.7	n.a.	6.7298	86.2
February				6.5338	110.6			-3.3	191.85	76.6	19.3	-1.1	n.a.	6.7332	87.0

NEWS: THE AMERICAS

Chrétien flings caution to the winds

Canada's PM may have called early poll in a bid to seize Quebec initiative, says Bernard Simon

Mr Jean Chrétien, Canada's prime minister, has seldom favoured risky gambles during his long political career. Caution has been the watchword of his Liberal government's 8½ years in office, with the prime minister generally preferring to follow rather than lead public opinion.

However, Mr Chrétien brushed aside words of caution from his own supporters by pressing ahead at the weekend with plans for an early general election on June 2.

Although the Liberals are clear favourites to win a second term in office, it is hard to find a party loyalist or an opinion pollster who believes they will match, much less exceed, the 177 seats (out of 296) they won in 1993.

Some nervous Liberals even predict a minority government, an outcome that would almost certainly raise questions about Mr Chrétien's own grip on the party leadership.

As the campaign began in earnest yesterday, the Progressive Conservatives - who were left with only two MPs after the 1993 election - were confident of wresting at least a dozen seats from the Liberals in Ontario and a handful in the four Atlantic provinces.

The social democrat New Demo-

cratic party, currently with nine MPs, hopes to gain support among voters dissatisfied with the Liberals' embrace of deficit-cutting, deregulation and North American free trade.

The Liberals also face opposition from the right-of-centre Reform party, which won 52 seats in 1993 and remains a force in western Canada, especially Alberta and British Columbia.

But the real battleground, in terms of Canada's long-term stability, will be in Quebec.

Mr Chrétien insisted when he called the election on Sunday that he needed a fresh mandate. "We have managed to do most of the work we set out to do," he said.

The time has come to offer real choices about what kind of society we want to have in Canada for the 21st century.

However, there is no obviously pressing issue before the electorate. Liberal strategists have struggled for months to come up with new ideas for a campaign platform.

Political observers suspect that one of Mr Chrétien's main reasons for going to the country now is an issue the Liberals will seek to mention as seldom as possible over the next five weeks, namely, Quebec's place in Canada.

National unity has been on the



Chrétien: gamble

backburner since Quebec secessionists narrowly lost an independence referendum in October 1995.

Mr Chrétien has sought to spike the separatists' guns with a series of relatively low profile moves to show Québecois that Ottawa can respond to their concerns, without provoking accusations of special treatment for Quebec in the rest of the country.

Last week, for instance, Ottawa resolved a long-standing Quebec demand by signing a deal to transfer jurisdiction for labour training to the province.

With the election out of the way,

so the theory in Ottawa goes, Mr Chrétien would be in a stronger position to seize the initiative on Quebec in consultation with premiers of the other nine provinces.

Mr Lucien Bouchard, Quebec's premier, has up to now been preoccupied with economic issues, especially public spending cuts to meet his target of eliminating the province's budget deficit by 2000.

For Mr Bouchard, putting the economy on a sounder footing is not an end in itself, but a prelude to revving up the engines of the separatist movement again. He is widely expected to call a provincial election next year, and an independence referendum to follow in 1999 or 2000.

The Bloc Québécois (BQ), which represents the separatist cause in the federal parliament, won 54 out of 75 Quebec seats in 1993, the most of any opposition party.

A similar or better showing on June 2 would help Mr Bouchard kick-start the drive towards the next referendum. Mr Gilles Duceppe, BQ leader, said on Sunday: "The fight for sovereignty is being pursued in [this] campaign."

The separatists have taken the credit for Mr Chrétien's conciliatory moves towards Quebec. The BQ's campaign slogan - "The Bloc is there for you" - is designed to

persuade Québecois they are best served by a strong nationalist force in Ottawa.

The BQ would be especially pleased if its candidate, a former provincial cabinet minister, could topple Mr Chrétien in St-Maurice in eastern Quebec.

But Québecois, who have a reputation as Canada's canniest voters, may have a surprise in store for the BQ. According to a Canadian Broadcasting Corporation opinion poll due to be aired last night, the BQ has lost significant ground in recent weeks, mainly to the Conservatives.

The poll gives the BQ 35 per cent of the decided vote, compared with 37 per cent for the Liberals and 25 per cent for the Tories. Mr Jean Charest, the Tory leader, earned 58 per cent approval ratings over either Mr Chrétien or Mr Duceppe.

The risk for the federalist camp is that anti-separatist votes will be split between Tories and Liberals, allowing BQ candidates to slip in with less than 50 per cent of the vote. The BQ captured about a dozen seats in this way in 1993.

Nevertheless, a strong showing by federalist forces in Quebec could vindicate Mr Chrétien's decision to call an early election - even at the expense of Liberal seats elsewhere in the country.

AMERICAN NEWS DIGEST

Bomb wounds Bogotá leader

The vice-president of Colombia's House of Representatives was wounded in a car bomb explosion yesterday which killed one of his bodyguards.

The explosion came from a car parked on the roadside in the eastern Colombian state of Arauca and was detonated by remote control, radio stations reported.

Mr Julio Enrique Acosta went to hospital with neck and leg wounds, according to the reports, but the seriousness of the injuries was not known. He is a member of President Ernesto Samper's Liberal party.

There was no immediate claim of responsibility for the blast. The rebel National Liberation Army is very strong in the region, where it has kidnapped mayors and intimidated regional political leaders.

The explosion occurred as Mr Acosta was on the way to the airport, and killed a bodyguard employed by the national security agency, DAS, police said. They said Mr Acosta and another bodyguard, who was also hurt, were taken to the Arauca General Hospital. *A.P., Bogotá*

Advertising ban stands

The US Supreme Court yesterday rejected a constitutional free-speech challenge to a ban on billboards that advertise cigarettes or alcoholic beverages in many public places frequented by children.

The court's decision on the ban in Baltimore came just three days after a federal judge in North Carolina ruled that the US Food and Drug Administration can regulate sales and labelling of cigarettes but has no authority over advertising.

The decision to let stand the Baltimore ban was taken without any comment or dissent from the justices and does not create a nationwide precedent. But it could encourage other cities to adopt similar measures.

The Baltimore cases, involving two ordinances adopted in 1994 in an effort to reduce illegal smoking and drinking by minors, had been closely watched by the tobacco, advertising and alcoholic beverage industries.

The North Carolina judge never reached the constitutional free-speech question, ruling only on the more narrow issue that the FDA lacked the authority under the law to adopt the federal restrictions on advertising of cigarettes.

The Baltimore laws were challenged by Anheuser-Busch, the nation's largest brewer, and by Penn Advertising of Baltimore, which has a number of billboards in the city. *Reuters, Washington*

Lima firm over siege ending

Peru sought yesterday to capitalise on its successful military strike against Marxist rebel hostage-takers and quash lingering criticism of human rights abuses in the raid and its aftermath.

"Everyone has applauded the government's decision and the way 72 people were rescued so cleanly and professionally," the justice minister, Mr Carlos Hermosa Moya, said. "We must not question the ever-so-clean and so beautiful way in which our men [soldiers] have given up their lives... to save the highly valuable lives of 72 hostages." Despite the subsequent death of one captive, the government claims the rescue achieved its goal because all were freed alive. All 14 hostage-takers died.

Mr Hermosa was the latest in a line of officials, including President Alberto Fujimori, to reject claims that two rebels were captured and executed during the raid and that families were kept from their bodies afterwards.

Those reports have threatened to tarnish the acclaim Peru has received from around the world for a military strike hailed as a great rescue operation. *Reuters, Lima*

Internet 'terror threat'

The threat of terrorism is likely to increase in the US as the Internet provides easier access to information on making bombs, the defence secretary, Mr William Cohen, said yesterday.

"It's a real threat," Mr Cohen said at a forum on terrorism held at the University of Georgia. "We are going to see information continue to spread as to how these weapons can be manufactured in a homegrown laboratory."

He said terrorist attacks such as the bombing of the World Trade Centre in New York City and the Oklahoma City federal building illustrated a growing threat. "It's likely to intensify in the years to come as more and more groups have access to this kind of information," he said. He said precautions against unconventional arms must be intensified as potential terrorists developed chemical weapons, germ warfare and electromagnetic methods that could create holes in the ozone layer or trigger earthquakes or volcanoes.

There also has been speculation that scientists could develop ethnic-specific pathogens "so that they could just eliminate certain ethnic groups". *Reuters, Athens, Georgia*

Libyan immunity upheld

The US Supreme Court yesterday let stand a ruling that Libya has sovereign immunity shielding it from a lawsuit filed on behalf of a victim killed in the bombing of Pan Am Flight 103 over Lockerbie, Scotland.

The civil case was brought by Mr Bruce Smith, whose wife, Ingrid, was among the 259 people killed when a bomb exploded in a suitcase on board the aircraft on December 21 1988. Eleven people on the ground also died.

The lawsuit alleged that Libya was behind the bombing and charged that two Libyan agents carried out the attack. It named Libya, the Libyan Security Organisation and Libyan Arab Airlines, as well as the two Libyans.

A US Court of Appeals in New York in November upheld a federal judge's ruling dismissing the lawsuit against Libya for lack of jurisdiction. It said Libya enjoyed immunity under the foreign sovereign immunities law.

Before the appeals court, US government lawyers expressed concern about the foreign policy implications of letting the suit go forward, saying the US could be placed at greater risk in foreign courts. *Reuters, Washington*

Winnipeg digs in against rising floods

By Scott Morrison
in Vancouver

Canadian federal troops and emergency personnel are furiously erecting dykes to protect portions of Winnipeg from an onslaught of flood water lapping at the city's edge.

A 15-mile emergency dyke south of the city of 700,000 people was expected to be completed yesterday and workers have begun building a second earthen wall behind it in case the first fails.

Three million sandbags have already been stacked and an estimated 9m should be in place by the time flood waters crest this weekend.

The spring thaw following a winter of heavy snowfall has swollen the Red River in southern Manitoba, forcing an estimated 17,000 people out of their homes already. Over 50,000 people fled Grand Forks, North Dakota, last week as Red River overflow devastated the city, causing at least US\$1bn in

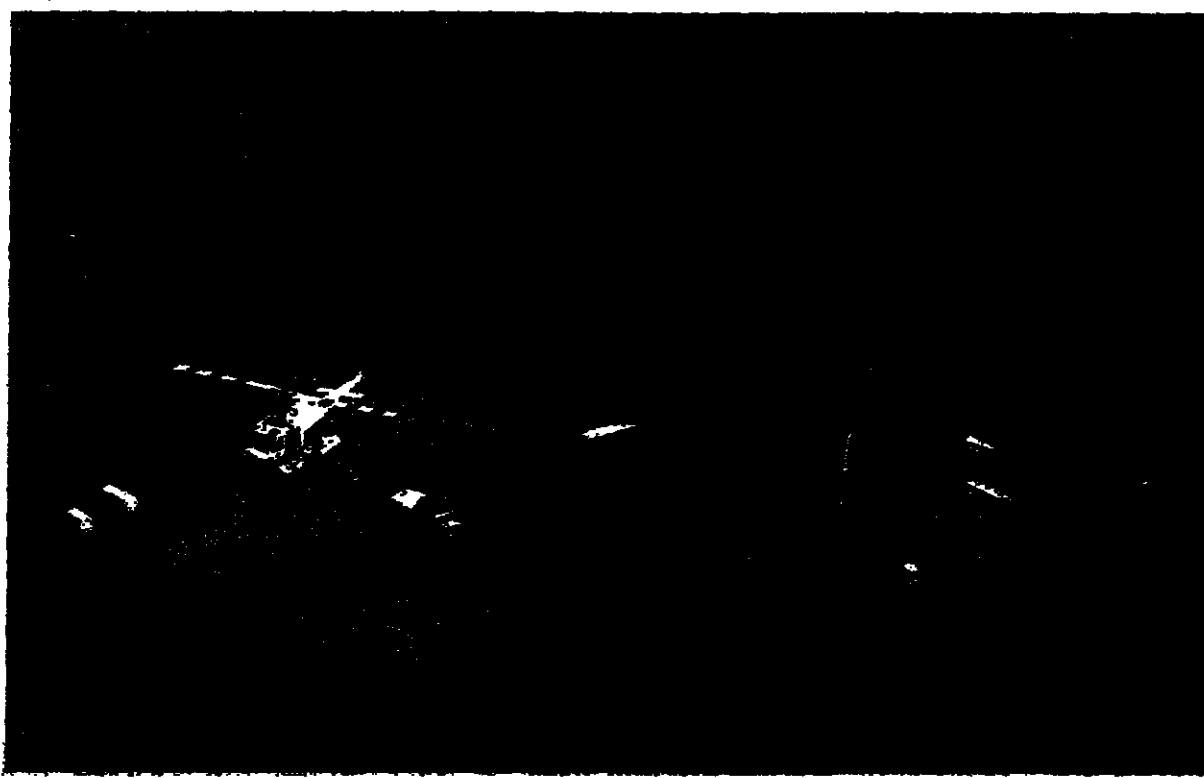
damage. The river has spread across a 25-mile-wide swathe of southern Manitoba and, at its peak, the flood will cover 1,000 square miles. Winnipeg residents are growing worried by the rising waters, which could cause damage across the province in excess of C\$100m (US\$70m), said one Winnipeg insurance broker.

Officials, however, confidently predict the city will be spared the brunt of the flood by a 23-mile floodway and an extensive system of dykes.

"We're not going to be like Grand Forks," said Mrs Yvette Cenerini Turner, a Winnipeg emergency official.

The floodway, known as Duff's Ditch after the provincial premier who had it built, withstood the so-called flood of the century in 1979, but estimates suggest this year's surge will rise higher. The Red River was expected to crest at Winnipeg on May 5 some 17 feet above normal levels.

"This is bigger than '79, so



A Canadian air force helicopter evacuates Adrian Bouchard from his Manitoba farm home at the weekend

this is the real test [of the floodway]," said Mr Joe Csech, a provincial emergency official.

Parts of the city to the south of the floodway and homes located along the river were still at risk. Hundreds of provincial emergency personnel have been working alongside 3,000 fed-

eral troops to build barriers. The province has requested 7,000 more troops to help with preparations.

Emergency officials were worried that high winds yesterday might whip up the inland sea of water and send it pounding into dykes protecting southern Winnipeg and eight other communities

in the Red River valley. Many dykes built around individual farms have failed to resist the water, now being called the Red Sea by locals.

Roughly 2-3 per cent of Canada's wheat crop is grown in the Red River Valley, according to Canadian Wheat Board data. A board

official said the flood would delay planting in the region, but it was not yet clear how the flood would affect output in the valley.

The provincial agriculture ministry said the outcome depended largely on whether rain would hold off to allow the region to dry within a few weeks.

US new homes sales for March remain buoyant

Sales of new US homes dipped slightly last month, the Commerce Department said yesterday, but remained at a sturdy level as sales rates from December to February were revised upwards. *Reuters reports from Washington.*

Sales fell 2.5 per cent last month to a seasonally adjusted annual rate of 813,000 units after a revised 1.1 per cent gain in February to 834,000 units - the strongest sales pace since 387,000 in April 1995. Previously, the department said sales had fallen by 0.7 per cent in February to a rate of 811,000, instead of rising.

Wall Street economists had forecast that March sales would slip to a rate of 794,000, partly because higher interest rates and bad weather were expected to hit buyers' interest.

But housing remains buoy-

ant, helped by strong job growth and income gains that have enabled more buyers to qualify for loans, even at higher rates.

The Federal Home Loan Mortgage Corporation said that rates for a 30-year mortgage loan averaged 7.90 per cent in March, up from 7.65 per cent in February and 7.62 per cent in March 1996.

Analysts say the ready availability of credit, especially low, introductory-rate adjustable mortgages, also helped sustain the housing market.

The Commerce Department's upward revision of its estimates of monthly sales from December through February was an indication that the new-home side of housing began the year with more momentum than previously estimated and added more to economic growth than ana-

lysts had calculated earlier.

Sales of new homes in March were running at a brisk 14.3 per cent above a year earlier, when they were selling at a rate of 711,000 a year.

Inventories of new homes that were completed and ready for sale kept shrinking in March, creating more opportunity for builders to keep construction going as well as putting a floor under prices.

There were 297,000 houses for sale across the country in March, down from 307,000 in February. It was the smallest inventory of available new homes since April 1994, when there were also 297,000 on the market.

Housing demand is expected to level off gradually as the year wears on. There were signs of it last week in weaker sales of previously-lived-in homes in March.

Trade gap with US put on Caribbean agenda

By Canute James
in Kingston

Caribbean leaders who will meet US President Bill Clinton in Barbados at the end of next week have agreed to raise several "related" economic and political matters, including the region's widening trade deficit with the US, according to officials from several regional governments.

Caribbean government ministers and their advisers have had a series of meetings over the past four weeks to refine the agenda for the summit on May 10. Several of the meetings have been attended by officials from the White House. The Barbados meeting will follow by three days a meeting between Mr Clinton and Central American leaders.

Caribbean leaders are concerned about the growing trade deficit, said by the Caribbean Community secretary to be about \$8bn a year, despite a US preferential trade programme for the region. The effect of the widening deficit has been compounded by a steady decline

a preliminary WTO panel ruling against the EU preferences is upheld.

"The US is concerned about the movement of narcotics through the region from South America to North America," said one official. "We are also concerned about this, and this will also be discussed during the summit."

The region is seeking help in fighting the flow of narcotics. Jamaica and Barbados are negotiating aspects of a treaty already agreed by the US and several other countries, allowing access to territorial waters and airspace for US law-enforcement agents who are pursuing suspected traffickers.

All these issues are related, said the official. "Generally, the region is seeking increased financial flows, debt relief or improved trade concessions."

The US complaint to the World Trade Organisation about the EU's preferences for bananas will also be raised in the summit, the official said. Several smaller Caribbean countries, mainly in the Windward Islands group, are heavily dependent on the EU market, and will be adversely affected if

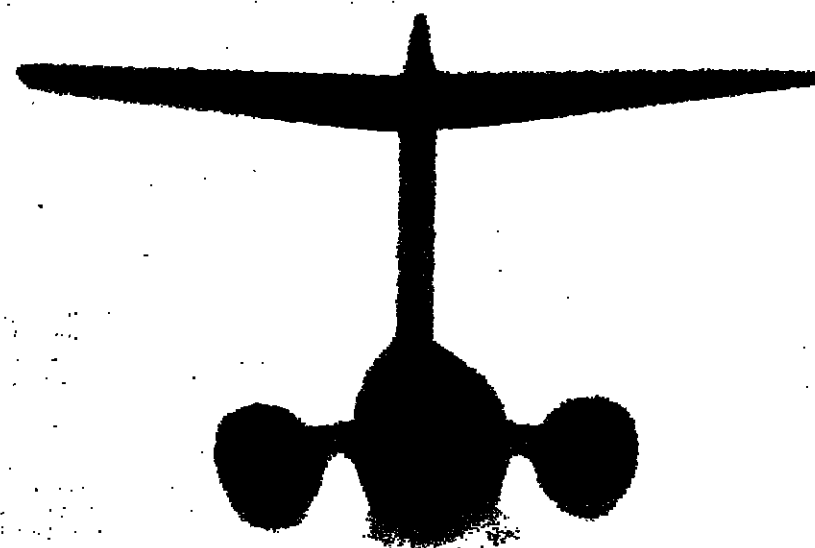
US is concerned about narcotics

trade deficit, said by the Caribbean Community secretary to be about \$8bn a year, despite a US preferential trade programme for the region. The effect of the widening deficit has been compounded by a steady decline

in official aid from the US government, moving from \$228m in 1995 to \$55m last year.

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NEWS: UK

Institutions' confidence grows as inflow to mutual funds rises fivefold

Boost for property investment

By Andrew Taylor, Construction Correspondent

Further evidence of a revival in commercial property investment by financial institutions was provided yesterday by a big jump in the amount of new money raised by property unit trusts.

New investment in the trusts (mutual funds) rose more than fivefold to almost £175m (\$283.5m) in the first quarter of this year compared with just £32.6m in the first three months of 1996.

New money raised was 73 per cent higher than in the

final quarter of last year, according to the Association of Property Unit Trusts.

Its latest quarterly figures emphasise the extent of the revival of confidence in commercial property by institutions which for much of the past 15 years have been reducing their property holdings.

The association said that the value of funds held by its members rose by 13 per cent to £2,975bn during the year to March.

Net investment in the first quarter, after taking into account redemptions, was £157.27m. This compared

with net investment of £81.18m in the previous three months and a net outflow of £10.05m in the same period a year ago.

Prices Property Investment Management, a European property investment specialists, said: "Recent figures from the Office of National Statistics have suggested that pension funds have been reducing their direct holdings in property."

"The association's latest figures point to the fact that pension funds are increasingly investing indirectly in property unit trusts."

Since 1981, institutions

have reduced the proportion of their total investment in commercial property from almost 19 per cent to less than 5 per cent.

Further upward pressure on rents was likely to be caused by building costs which were forecast to rise over the next two years. It warned that the shortage of homes was leading to acute price rises in some areas.

A separate survey published yesterday by the Royal Institution of Chartered Surveyors said the confidence in the commercial property sector "was at its highest for at least three years". It said: "Although some new buildings are under construction, the time delay before supply can be increased to meet demand is

inevitably pushing up rents."

Further upward pressure on rents was likely to be caused by building costs which were forecast to rise over the next two years. It warned that the shortage of homes was leading to acute price rises in some areas.

● Jones Lang Wootton International estate agents and real estate advisers announced yesterday that it was merging with Richard Main, City of London property specialists, taking the total amount of City office space managed by J.L.W. to more than 6.4m sq ft.

Army fails to find extras for Spielberg

By Alice Rawsthorn in London

Steven Spielberg, the Oscar-winning director, is considering transferring part of the production of his film, *Saving Private Ryan*, from England to the Republic of Ireland because of a shortage of extras.

DreamWorks, the US entertainment group co-founded by Mr Spielberg, wants to use 1,000 male extras, preferably professional soldiers or territorial Army volunteers, to re-enact the D-Day landings for the movie, which stars Tom Hanks.

The Army yesterday said it was unable to meet Mr Spielberg's requirements, explaining it does not have enough troops available.

Some 28 per cent of British soldiers are deployed in Bosnia, Northern Ireland or providing cover for a fire brigade strike in England. A further 30 per cent of troops are training.

Mr Spielberg is eager to use real troops for *Saving Private Ryan* because he wants them to have an authentically tough, athletic air. The extras must be fit enough to race in and out of the sea carrying heavy equipment during filming.

DreamWorks representatives will visit Ireland today to view locations. They will discuss possibly using Irish territorial soldiers, who acted as extras in the battle scenes of Mel Gibson's *Braveheart*.

The British Film Commission said it was doing "everything possible" to ensure the whole of *Saving Private Ryan* was filmed in England. It faces fierce competition for US productions from Ireland, where film makers qualify for tax breaks. Several ostensibly "British" films, including *Sweeney Todd* and *Moby Dick*, are being shot there.

Hollywood blockbusters made in the UK, including *Mission Impossible* and *The Saint*, have fuelled the film industry's revival.

Peter Marsh
Chris Tighe

UK NEWS DIGEST

Bomb at Sinn Féin office

A car bomb containing 50kg of explosives was defused by the British army yesterday outside a Sinn Féin office in Belfast, the capital of Northern Ireland. The bomb was packed into a beer keg in the back of a white car believed to have been stolen in the city in January.

Mr Gerry Adams, Sinn Féin president, accused anti-republican "loyalists" of planting the device. It was similar to a bomb left close to another Sinn Féin office in the republican New Lodge area of the city several weeks ago. Houses and businesses were evacuated for more than two hours yesterday while the bomb team carried out two controlled explosions before declaring the device safe.

The alarm was raised by a telephone caller to a local radio station who gave no recognised codeword and named no organisation as being responsible. Homes in part of the Catholic Rawmore estate at Newtownabbey on the northern outskirts of Belfast were yesterday evacuated in a bomb alert which turned out to be a hoax.

NORTH SEA FIELDS

Oil and gas output at record

Oil and natural gas production in the North Sea reached a combined record last year and represented 2.5 per cent of the UK gross domestic product, the government's annual energy report said yesterday.

A total of 130m tonnes of oil was produced, slightly down on a year earlier. The decline was more than offset by a sharp increase in gas output to 83.8bn cu m, compared with 75.4bn cu m in 1996. Possible remaining oil reserves are estimated at 2035m tonnes, with maximum possible gas reserves at 1960bn cu m.

Development activity in the sector was at record levels, with 261 wells having been started in 1996 compared with 244 a year earlier. There was also an increase in exploration and appraisal wells, which numbered 112 compared with 98 in 1996. Total investment in the sector was up 3.5 per cent to £4.4bn (\$7.12bn).

Robert Corzine, London

CHANNEL RAIL PAY TALKS

Eurostar may improve offer

Eurostar is expected to improve its pay offer to managers who work on trains between London and mainland Europe when talks resume later this week with the Associated Society of Locomotive Engineers and Firemen (ASLEF), the train drivers' union, after it was announced yesterday that they are to be balloted for industrial action.

The 130 managers, who are essential for ensuring safety on the trains that run through the Channel Tunnel and act as relief drivers, will be asked to back a series of 24-hour strikes. They have already rejected a pay offer that would have increased their salary to over £21,000 (\$34,000) a year. At present the managers earn between £18,000 and £19,000 under 30 different rates of pay.

"The managers are seeking a sensible wage structure which reflects the rate for the job and for the very responsible duties they have to carry out," Mr Lew Adams, ASLEF's general secretary, said yesterday.

In a separate development, ASLEF also said that staff employed on Le Shuttle trains running transport cars between the English and French coasts might also be involved in stoppages over the issue of trade union recognition.

Robert Taylor, London

Brothers connect with British board business

Latest acquisitions make US newcomer the leader of European printed circuit sector

Jim and Bob Mills - two brothers with seven decades of collective experience in US industry - have recently been spending a lot of time examining the UK printed circuit board sector. They like what they have seen.

Twice in the past two months the Mills brothers, chairman and president respectively of Viasystems, a US PCB maker, have swooped to buy two leading UK board manufacturers.

Last month, Forward, a publicly quoted group, became part of Viasystems for £129m (\$208m). Viasystems paid an undisclosed sum earlier this month to take over the privately owned Interconnection Systems, the UK's biggest PCB producer and one of the country's fastest growing technology companies.

The purchases have made Viasystems Europe's biggest maker of PCBs, which are essential components for most types of electronic equipment.

Production this year from

the company's Forward and Interconnection plants is likely to reach about \$400m, of which half will be for export. This will mean that some 45 per cent of the UK's total output of PCBs will be under the control of a company formed with a \$2bn "war chest" for buying up PCB makers.

Britain is the second biggest maker of PCBs in western Europe after Germany, accounting for about 17 per cent of the \$5.2bn worth of board output last year

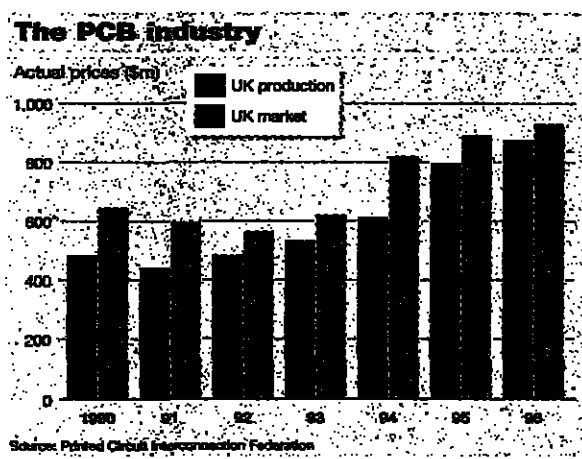
"The UK has a good cost base, and excellent management," says Mr Bob Mills. Moreover, the industry in the UK has a growth record stronger than anywhere else in Europe, partly because of strong domestic demand but

also on the back of healthy exports expansion.

Last year, UK output of boards totalled \$878.2m, according to the UK Printed Circuit Interconnection Federation, the trade body for the industry. Production was up 80 per cent on 1992, a low point for the sector linked to the early 1990s recession. Over the same period, exports more than doubled, from \$112m to \$253m.

Britain is the second biggest maker of PCBs in western Europe after Germany, accounting for about 17 per cent of the \$5.2bn worth of boards made in western Europe last year. The UK industry consists of about 150 companies, most of them of small or medium size and which are subcontractors, usually to much larger electronics companies.

According to Mr Brian Haken, director of the Printed Circuit Interconnection Federation, the industry has been helped both by a concentration of electronics groups in Britain and by a big effort by board makers to improve productivity and



design skills. Output per person in the industry climbed nearly 70 per cent in the four years to 1996.

The performance record has convinced the Mills brothers that Britain should be an essential part of their plans to boost Viasystems' sales from an expected \$1bn this year to up to \$2bn in two years' time. Among the company's rivals are Mommsen of the Netherlands and Ruwet-Werke and Mayer of Germany, along with CMK of Japan, which is the world's biggest PCB producer.

According to Mr Bob Mills, the company is considering 12 more acquisitions - four in mainland Europe, three in Asia and five in North America - to add to the two it made last year in the US and Canada and its two recent UK purchases.

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LEGAL NOTICES

NOTICE TO SHAREHOLDERS

To the shareholders of MONTAGU PROPERTIES LIMITED, a company incorporated under the laws of the Republic of Ireland.

Notice is hereby given of a meeting of the shareholders of MONTAGU PROPERTIES LIMITED to be held at The Canary Hotel, 100 Victoria Road, London E14 5AB, on the 19th day of May, 1997 at 10.00 am for the following purpose:

To increase the capital of the company from £254,962.72 to £1,000,000.00 by the creation of new shares.

The Notice is given pursuant to Clause D of the Articles of Association of the company dated the 19th day of March 1990.

A copy of the proposed Resolution can be obtained from the company's solicitors, Messrs. Connors & Connors of 20 Upper Ground, London SE1 9AT, marked for the attention of Mr J. Brennan.

Dated the 25th day of April 1997. Geneva, Switzerland.

By order of the Board of Directors
MONTAGU PROPERTIES LIMITED

THE HIGH COURT IN THE MATTER OF: NEMEL RESOURCES PLC (formerly NEMEL Resources Plc) AND IN THE MATTER OF: THE COMPANIES ACTS, 1963 - 1990

NOTICE is hereby given that on 24 April 1997 the order of the High Court made on 24 April 1997 concerning the reduction of the capital of the company by the cancellation of the issued and unissued shares (including the shares of the company) and by the corresponding reduction in the amount of £1,000,000.00 standing to the debit of the Profit and Loss Account of the Company as directed by the court order was registered with the Registrar of Companies pursuant to Section 75 of the Companies Act 1963.

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Banks face 'dirty money' jibe from US

By John Mason,
Law Courts Correspondent

UK bankers and financial services professionals could be prosecuted under US anti-money laundering laws because staff are inadequately trained to spot the proceeds of crime, a conference in London will be told today.

"New York sends dirty money to London," Mr John Moscow, the senior assistant district attorney of Manhattan, said at a press conference in the British capital yesterday.

"I'm not looking for a squabble, but I think that money laundering is a problem and banking secrecy is a big thing. There are some people who think there should be banking secrecy and no questions asked. I disagree."

A survey published yesterday revealed that one in five officers in banks and other financial institutions who are responsible for reporting suspicious transactions have received inadequate training for their legal obligations.

This could put them and their employers at risk from a robust US initiative to use extra-territorial powers to combat money laundering.

Mr Rowan Bosworth-Davies, a financial crime specialist with City of London law firm Titmuss Sainer Dechert said.

The survey, carried out by Mr Bosworth-Davies and paid for by the Financial Times Financial Publishing, polled 260 money laundering reporting officers (MLROs) in banking and other financial services.

His remarks were underlined by Mr Moscow, who recently prosecuted three Venezuelan bankers for laundering money through New York.

Mr Moscow said the US authorities were entitled to step up their use of draconian extra-territorial powers against foreign banks and institutions.

However, both the survey's findings and the US initiative were questioned by the British Bankers' Association. It insisted that training standards were high.

Under the initiative, ordered by President Bill Clinton in 1986, US authorities have raised the stakes in their efforts to persuade other countries to tighten their anti-money laundering procedures.

This includes prosecutors, notably in Manhattan, serving notice that they intend to take punitive extra-territorial action over any dollar-based transactions of more than \$10,000 that pass through New York, however briefly.

A dollar-based money laundering transaction from, for example, London to Geneva would almost certainly come under the jurisdiction of the US courts because the cash would most likely have passed through the New York clearing bank system, if only for a matter of seconds and in the form of a series of electronic blips.

Increased use of these powers could result in non-US institutions having their assets seized and personnel extradited to the US to face criminal charges.

The survey report said 20 per cent of respondents failed to receive satisfactory training on spotting money laundering and their legal obligations to report suspicious transactions to the National Criminal Intelligence Service (NCIS). Of these, seven per cent received their training from the British Bankers' Association before 1990 when the UK money laundering regulations came into force, and 13 per cent admitted they had received no training.

A BBA spokesman said the US and UK agreed on the need to clean up financial markets and put "bad guys" behind bars. But he said: "I don't believe the US has a monopoly on justice."

Labour plays down 'landslide' expectations

By John Gapper in London

The Labour Party yesterday attempted to play down growing expectations that it will win a landslide victory in the general election on Thursday, insisting that it intended fighting for every vote.

Mr Tony Blair, the party leader, emphasised that Labour would continue campaigning until the last minute, despite gaining leads of about 20 percentage points in the latest opinion polls.

The ruling Conservative party

The general election campaign

also attempted to cast doubt on opinion polls, and to avoid being drawn publicly into speculation on which senior party figures would take part in a contest to succeed Mr John Major as party leader.

Despite these efforts, there was a growing consensus that Labour is in line to end 18 years of Conservative government in Britain, having apparently managed to avoid

any serious narrowing of its large opinion poll lead.

Mr Blair continued to emphasise Labour's theme over the past few days of the campaign - that voters could allow the Conservatives back into government through complacency. He said his party "would be taking nothing for granted".

The Labour party is widely regarded as having relaxed its guard in the last days before the 1992 general election, when it had a narrow opinion poll lead.

At that time, Mr Major led the

Conservatives to an unexpected victory, defying all the expert predictions.

Mr Blair concentrated his day's campaigning on the prospects for the National Health Service, the publicly-funded medical system, if the Conservatives were re-elected. He argued that the NHS would be "better and fairer" under Labour.

Labour has promised to add an extra £100m to the NHS annual budget of £35bn if elected, and hopes to transfer some of the £4.5bn spent annually on administration into patient care. It has

ruled out raising taxation to help further. Mr Blair said that he did not think the UK was "a landslide country", despite opinion poll ratings that would give Labour a majority of up to 200 in the 659-seat House of Commons if they were translated into votes on Thursday.

Mr Michael Heseltine, the deputy prime minister, said that he believed in "fighting to the last man and the last round", and doubted the poll findings. He said a large number of the voters had not yet made up their minds.

Conservative hopefuls look beyond Major

Contenders discreetly stake their claims as defeat looms.

The campaign to become the next leader of the Conservative party has inevitably been a quiet affair. It is not in the interests of any contender to make his or her candidacy known yet. Any one interested must first await the party's widely expected election defeat on Thursday.

The emergence of contenders to succeed Mr John Major as party leader would not be long delayed. With the prospect of a Labour victory and the likelihood of Mr Major stepping down after the election, several senior party figures would be eager to declare their hands to gain an early edge.

The election by the party's members of parliament could be a divisive event. Since the Conservative party has been in power for 18 years, the shock of losing office would be likely to lead to recriminations. Hardline opponents of European integration may well blame pro-Europeans for the election defeat.

The opposition of most in the party to the UK participating in a European single currency means that right-

wingers would have an early advantage. The two most obvious candidates of the right are Mr Michael Portillo, chief defence minister, and Mr John Redwood, a former cabinet member.

Mr Portillo was seen as the leading rightwing contender until 1996, when Mr Major called a snap leadership election to gain a mandate for his policies on Europe. Mr Portillo exposed himself to ridicule by not standing while installing extra telephone lines just in case.

Mr John Redwood, a fellow of All Souls College at Oxford University and former broking analyst, exploited the gap by resigning from the cabinet to stand against Mr Major. While appearing too cold and intellectual to make a good prime minister, Mr Redwood won points for courage.

Yet Mr Portillo has since won back respect and has fought a loyal campaign. By contrast, Mr Redwood has tried to push Mr Major towards ruling out a single currency. The result is that Mr Portillo would again be the leading rightwing contender despite doubts about his judgment.



Two potential candidates for the Conservative leadership at opposite ends of the age scale are William Hague (left), at 36 the youngest member of the Major cabinet, and Michael Heseltine, 64, the strongly pro-European deputy prime minister who attempted to win the leadership in 1990 after the ousting of Margaret Thatcher. Neither is likely to lose his seat in the House of Commons even if Labour wins the national election on Thursday.

A rightwing alternative might be Mr Michael Howard, the home secretary, who has won party popularity for his tough policies on imprisonment and immigration. However, even his supporters acknowledge that many ordinary people see him as mean-spirited, and wrong to lead the country.

An obvious alternative to Mr Portillo is Mr William Hague, the 36-year-old chief minister for Wales, who leapt to prominence when he spoke at a party conference when he was only 16. Mr Hague has flourished into an adept and popular politician within the Conservative party.

Many Conservatives see him not only as a suitable compromise between the

party's left and right wings, but a good challenger to Mr Tony Blair, the Labour leader.

On the left, Mr Kenneth Clarke, the chancellor of the exchequer, is regarded as a heavyweight candidate despite the unpopularity of his insistence that the party should not rule out joining a single currency in 1993. Mr Clarke is widely respected for his solid good sense and liberal Toryism.

It has been widely assumed that Mr Michael Heseltine, the 64-year-old deputy prime minister, was too old to stand as a candidate.

However, indications are that the pro-European Mr Heseltine might stand and strike a deal with Mr Clarke to step down at a suitable

moment for the latter to succeed him.

Another candidate on the left of the party whose hat is clearly in the ring is Mr Stephen Dorrell, health secretary. However, Mr Dorrell's barely-concealed attempt to gain favour on the right by portraying himself as a sceptic about Europe in a speech did him little good.

The wild card is Mr Chris Patten, governor of Hong Kong, who loses his job in June when the territory is handed back to China. In his favour, Mr Patten is a friend of Mr Major, but he would have to recapture a Commons seat at a by-election to have a chance of becoming the Conservative leader.

John Gapper

Appeal to anti-EU group to aid Tories

Mr Paul Sykes, the businessman providing financial backing to Eurosceptic Conservative candidates, yesterday issued an appeal for the Referendum party to withdraw from districts where Tory [Conservative] candidates publicly oppose a single European currency. Liam Halligan writes.

"If your candidates stand, as many are doing, in marginal constituencies, splitting the vote, they will allow Labour and Liberal Democrats to get elected," Mr Sykes told Sir James Goldsmith, the leader of the Referendum party. "It would be regrettable for us all if the Conservatives were to lose by only 15 or 20 seats, allowing these two federalist parties into power."

The Referendum party is standing in 547 of Britain's 659 constituencies, avoiding 83 seats on its "white list", where Conservative candidates have an anti-integrationist record.

Editorial Comment, Page 17

More news of the election campaign can be found at the Financial Times website <http://www.ft.com> where each district's result will be shown as it is declared after voting on Thursday.

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LAW

German sex law overruled



EUROPEAN COURT

German laws which made the payment of damages for sex discrimination subject to proof of fault were contrary to European law, the European Court of Justice ruled.

The case arose out of proceedings brought by Mr Nils Draehmpaehl against Urania Immobilienservice oHG. The company had advertised for a female assistant in sales management. Mr Draehmpaehl applied, but Urania did not reply to his letter nor return his documents. He claimed he was the best qualified applicant and alleged sex discrimination.

The Hamburg Labour Court found in his favour but referred four questions to the European Court. It asked first whether the European Equal Treatment Directive precluded provisions of domestic law which made compensation for sex discrimination dependent on proving fault.

The Court referred to an earlier case, and reiterated that any breach of the prohibition of discrimination must, in itself, be sufficient to render the employer fully liable, without there being any possibility of invoking exemptions under domestic law. Therefore, the court did not consider relevant the argument of the German government that proof of fault was easy to adduce under German law.

By its second and third questions the national court asked whether the directive precluded provisions of domestic law which placed a ceiling of three months' salary on the amount of compensation in such cases. It also asked whether the answer to that question also applied where the person discriminated against would not have obtained the position anyway because the applicant chosen had superior qualifications.

The Court noted that even though the directive did not impose a specific sanction on member states, nonetheless, it obliged them to adopt

measures which were sufficiently effective for achieving the directive's aim to ensure that those measures might be effectively relied on before national courts.

The directive required that if a member state chose to penalise a breach of the prohibition of discrimination by award of compensation, that compensation had to be such as to guarantee real and effective judicial protection, have a real deterrent effect on the employer and be adequate in relation to the damage sustained.

The Court observed that member states had to ensure that infringements of European law were penalised under conditions, procedural and substantive, which were analogous to those applicable to infringements of domestic law of a similar nature and importance.

The court concluded that the German provisions which prescribed an upper limit of three months' salary for compensation for sex discrimination were contrary to the directive.

However, it also concluded that that provision could take account of the fact that if there had been no discrimination, some applicants would not have obtained the job.

Such applicants had not suffered to the same degree as those who would have obtained the job if there had been no discrimination. It was not unreasonable for a member state to lay down a statutory presumption that the damage suffered by such an applicant could not exceed three months' salary. Finally, the Court said the directive precluded domestic laws which imposed a ceiling of six months' earnings on the aggregate amount of compensation, which where several applicants claimed damages could be claimed by applicants who had been discriminated against on grounds of sex.

C-180/95: Nils Draehmpaehl v Urania Immobilienservice oHG, ECJ FC, April 22 1997.

BRICK COURT CHAMBERS, BRUSSELS

Boston elects Stern to top job

Carl Stern, who joined the Boston Consulting Group 23 years ago after graduating top in his MBA class, has been elected president and chief executive of the strategy consultancy firm. He succeeds John Clarkson, who will remain as chairman.

Every three years an election is held for the chief executive position at BCG. Voting is by the firm's 200 worldwide partners.

Clarkson has held the position since 1988 and announced that he would not stand for re-election for a fifth term when he was elected in 1994. He is widely credited with giving the firm a common direction and setting a vision which has brought all the partners on board. Stern, aged 51, is a senior vice-president, co-chairman of BCG's Americas region and a member of the firm's executive committee.

He holds an MBA from Stanford University's graduate school of business. He joined BCG in 1974 and spent two years in the firm's London office before leading the Chicago office - one of the most

successful within the firm - from 1981 to 1991. His practice spans consumer packaged goods, financial services and industrial companies, most of which are global in scope. One industry observer described him as being both a "safe pair of hands" and an innovator.

Privately held BCG is a main competitor to McKinsey and was the first consulting group to specialise purely in strategy.

Lisa Wood, London

New chief at grain processing group

Allen Andreas has succeeded his uncle, Dwayne Andreas, as chief executive of Archer Daniels Midland, the US-based grain processing group.

The new CEO is well suited for ADM's global business. He is a 25-year veteran of the company and spearheaded ADM's international expansion. He has lived in London for six of the past eight years, opening the company's first European offices in 1988.

He returned to Illinois in 1994 to become a special adviser to the board, and in that role gained the support of important institutional

shareholders. While some shareholders have painted his appointment as a dynastic handover - Dwayne Andreas continues as chairman - he is proud of his family's record. "If you had invested \$1,000 in ADM 30 years ago, when my family began managing this business, you would have \$100,000 now," he observed. "I think that growth is sustainable."

Allen has three immediate challenges. The first is to convince institutional investors and long-time shareholders that the grain processing and merchandising company has put its troubles with the US government in the past.

The second is to guide ADM through a difficult period where rising raw materials prices and staunch competition are trimming margins.

Finally, there is the delicate matter of his own appointment. The 53-year-old executive succeeds his 79-year-old uncle, Mr Dwayne Andreas, a flamboyant leader with unparalleled global connections, who held ADM's tiller for 30 years.

The senior Mr Andreas' record was blackened during the last two years as the US government collected evidence that ADM partici-

pated in a global price-fixing scheme for food and feed additives it produced.

The company settled with the US Justice Department last year and agreed to pay \$100m, a record in any US price-fixing case. With recent settlements of civil cases brought by shareholders the tab has risen to nearly \$300m.

Perhaps the greater price for the company, which had \$13bn in sales last year, was one of investor confidence. Soon after the government investigation came to light, shareholder activists pressured ADM to reform its board. That reform is in progress and Allen says the company is ready to move on.

Laurie Morse, Chicago

Ramaphosa joins Anglo American

Cyril Ramaphosa, the former secretary-general of the African National Congress, and Mzi Khumalo, who spent 12 years as a political prisoner under the apartheid regime, have been appointed to the main board of Anglo American, South Africa's largest company.

The appointments are the culmination of a three-year process

which began on the eve of the first all-race election in March 1994, when Anglo offered to sell Johnnic, a R10bn industrial holding company, and JCI, the world's sixth largest gold producer, to black investors to promote black economic empowerment.

Ramaphosa, who quit politics in May last year to pursue a business career, was appointed chairman of Johnnic after he marshalled the rival trade union and business groupings who took control of Johnnic in August. As the founding president of the National Union of Mineworkers, his appointment to the Anglo board has been widely cited as a measure of South Africa's political transformation since the end of apartheid.

Outside the financial services industry, Khumalo, who was jailed for 12 years with Nelson Mandela on Robben Island, was a little known figure until he became chairman of Capital Alliance, a black-controlled investment holding company. There he led Africa Mining Group's successful bid for Anglo's controlling stake in JCI and took over as chairman last month. Anglo will retain a minority stake in both companies.

Mark Ashurst, Johannesburg

ON THE MOVE

■ PHILIPP HOLZMANN, Germany's largest construction group, has appointed Carl von Boehm-Bezing as the new head of its supervisory board. Boehm-Bezing, also a member of Deutsche Bank AG's management board, takes over from Hermann Becker, who resigned early in March.

■ BANK OF WESTERN AUSTRALIA has appointed Terry Budge as chief operating officer.

■ GAYLORD ENTERTAINMENT has appointed Terry London, its chief operating officer.

■ SONEA INVESTMENTOS has appointed two new board members and one new director for a four-year period. Antonio Borges, Bank of Portugal vice-governor and Paul Orchard-Lisle, president of Reading University, have been appointed to the board. Jose Penada, former Minister for Employment and Social Security becomes a director. Sonea Investimentos is the holding company which oversees Portugal's largest retail and financial group.

■ CROATIA AIRLINES' institutions. He will have worldwide responsibility for the conception and development of SWIFT's products and message standards.

■ CORNERSTONE IMAGING, a provider of monitors and graphics controllers for computing applications, has appointed Mark Lewis as managing director Europe. He will be responsible for sales, marketing and operations for Cornerstone European, Middle Eastern and African regions.

■ NELSON HURST has appointed David Batchelor to head its Asia Pacific Region.

■ SONEA INVESTMENTOS has appointed two new board members and one new director for a four-year period. Antonio Borges, Bank of Portugal vice-governor and Paul Orchard-Lisle, president of Reading University, have been appointed to the board. Jose Penada, former Minister for Employment and Social Security becomes a director. Sonea Investimentos is the holding company which oversees Portugal's largest retail and financial group.

supervisory board has appointed Ivan Misetic, chief of protocol to president Franjo Tudjman, as company president to replace Matija Kadicic.

■ Antonio Finocchiaro has been appointed as a BANK OF ITALY vice-director-general, replacing Tommaso Padoa Schioppa who was recently appointed as chairman of Consob, the Italian stock market regulator.

■ Finocchiaro joined the Bank of Italy in 1961 and has been secretary-general since 1985.

■ UNION BANK OF SWITZERLAND has appointed Stevan Lambert as managing director of its fixed income, currency derivatives and debt capital markets business in East Asia, based in Singapore. He was previously managing similar businesses for Merrill Lynch in Australia and London.

■ Irish-based BULA RESOURCES has announced that Jim Stanley has resigned as chairman and chief executive of its oil exploration and production group. Tom Fitzpatrick will be the interim chairman.

■ ASAHI BANK has appointed a new president and chairman to cope with

Japan's "Big Bang" financial reforms. Tatsuro Ito, one of the bank's two deputy presidents, will replace Shigehiko Yoshino as president, while the other deputy president, Tadashi Tanaka, will replace Kosuke Yokota, the chairman.

■ THE FEDERAL BANK OF NEW YORK's board of directors has promoted three officers in the markets group to senior vice-president. They are: Pauline Chen, who has been given additional responsibility for the discount window; Dino Kos, who has been responsible for foreign exchange operations since January 1995 and Sandra Krieger, who has been responsible for domestic open market operations since January 1995.

■ ACCLAIM ENTERTAINMENT has promoted Fabian Nicieza from senior vice-president to president and publisher of its comics unit. Acclaim Comics. Acclaim Entertainment publishes entertainment software for Nintendo, Sega, Sony and personal computer hardware systems.

■ David Bauer, formerly a managing director at Lehman Brothers, has left to

become a co-head of US fixed-income sales at CREDIT SUISSE FIRST BOSTON.

■ ECI TELECOM has appointed Jonathan Kolber as chairman. He replaces Joseph Rosen, who is resigning although he will remain a member of ECI's board. ECI based in Israel, designs, develops, manufactures and markets digital telecommunications and data transmission systems.

■ TCHIBO HOLDING has formed a five-strong management board at Eduscho, the coffee roasting company which it bought last December. Tchibo said it would retain Hans-Werner Eckhoff (procurement and production) and Bernd Schmelau (personnel and legal matters). It has appointed Reinhold Moebis, formerly of Procter & Gamble, as marketing head. Tchibo also added two of its own managers to the Eduscho board - Hasso von Duering as sales director and Rainer Kutzner to head finance/systems. Hartmut Felgen, the former Eduscho sales head has left the company.

■ SINGAPORE PETROLEUM COMPANY

has appointed Jacobus Johannes Rinck, its executive president, as its executive director. Rinck was also appointed director of Singapore Refining.

■ Claes Bjoerk, a senior vice-president of SKANSKA and head of Skanska's US business area, has been appointed president and chief executive of Skanska from August 1. He will replace Melker Schoerling, who will take over as chairman of Skanska at the annual general meeting on May 5 from Percy Barnevik, who will become chairman of Investor. Bjoerk has been with Skanska since 1987. Since 1995 he has been a member of Skanska's group management.

■ Katsura Morita, chairman of TAKEDA CHEMICAL INDUSTRIES, will step down on June 27. No replacement has been announced.

International appointments

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Bruce Dorminey on the Gaia project's proposals for seeking out faraway planets

Planetary detection outside our solar system is difficult enough, but detecting other worlds en masse at distances of more than 500 light years seems closer to fiction than fact.

But advocates for the proposed Global Astrometric Interferometer for Astrophysics (Gaia) hope to do just that.

Gaia, which is competing for \$500m (\$400m) of funding from the European Space Agency, would survey 50m stars optically, fixing their exact positions, motions and parallaxes - apparent differences in position when viewed from several places.

Then it would use astrometric displacement, the gravitational shift that a planet exerts on its host star, to detect planets with a mass similar to that of Jupiter or a planet much larger than Earth from a field of 500,000 stars at an average distance of 200 parsecs, or 652 light years. It might even detect some Earth-like planets within 6 parsecs - about 20 light years.

Gaia's ultimate fate will not be known until 2000, when the agency must decide between it and a rival scheme called Darwin. If Gaia proceeds, the proposed five-year mission would begin on the back of an Ariane 5 launcher, possibly by 2010.

From a geostationary orbit, Gaia would use either two or three Fizeau interferometers, each akin to a telescope whose primary mirror has been broken and reassembled with some parts missing, to give an image

The gift of far sight

equal to that of a 4m telescope. Each comprising two pairs of 50cm mirrors about 3m apart, the interferometers would combine the light, with the colliding photons acting like merging wakes from two speedboats. The resulting interferometric image would leave Gaia with the ability to make such distant and extremely accurate measurements.

"Our primary objective is to understand what's going on with the stars within the galaxy," says Michael Perryman, an agency scientist conducting the Gaia study. "As a by-product we have a good instrument for picking up signatures of planetary systems. If the occurrence of a Jupiter-mass planet around a star has a probability of one in a 100 and we look at 500,000 stars, then we're going to pick out a few thousand."

At any given moment, Gaia's field of view would comprise 1,000 stars. The satellite would rotate at three times the speed of the minute hand of a clock, eventually covering the whole sky.

Each angle it measured would represent the distances between the stars, while shifts towards and away from a distant back-

ground star in relation to Gaia's own position would indicate a parallax and give the star's relative distance from the satellite. Gaia would then measure for the sort of astrometric displacement that could signal a planet.

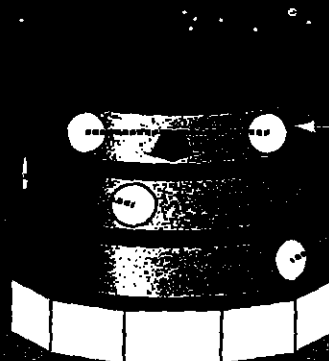
Perryman likens the whole process to a grand geodetic survey, in that Gaia would ultimately measure everything in respect to everything else: a star's direction, how fast it is moving through space, whether another star is circling it and whether another planet is orbiting it.

The agency aims to choose between the two proposals, although they both offer complementary forms of planetary detection. While Gaia is indirect or based on astrometrics, Darwin's is a direct method, which would use infra-red technology on a host of small telescopes free-flying through deep space.

In contrast, Nasa, the US space agency, has outlined its own Origins program with both methods of planetary detection. It is proceeding with plans for a Space Interferometry Mission (Sim) that is expected to be launched on an American Delta rocket by 2005.

How the Gaia detector might look

Fizeau interferometers



From low Earth orbit, Sim would also use astrometric displacement to search for planets down to a few Earth masses. But the Nasa version is not a survey instrument like Gaia. It would point at every target, focusing on some 100,000 stars, including doing planet searches around 20,000 stars within 40 parsecs. And it promises precision equal to that of measuring the thickness of a coin at a distance from the Earth to the Moon.

"We opted for higher accuracy and sensitivity, rather than Gaia's slightly lower accuracy, much lower sensitivity, and truly gigantic quantity of stars," says Mike Shao, Sim's project scientist at Nasa's Jet Propulsion Laboratory in California. "We'd likely look for planets in the galaxy's star-forming regions, around

stars in the spiral arms, and around stars in globular clusters in the galactic halo."

Even so, the technical challenges for both Sim and Gaia remain formidable. Nasa is designing and building a scaled-down version of Sim that will test inside a vacuum chamber. It says trials have shown the satellite's vibrations can be reduced to stability levels at which the optics will be accurate to within fractions of a nanometre - a thousand millionth of a metre.

Gaia is not that far along, having finished only a general feasibility assessment, although the agency plans to begin an official first-phase industrial study in September.

Before any of these projects get off the ground, a less ambitious approach is planned by CNES, the French space agency. It plans to launch, from Russia, a \$450m, 30cm photometric telescope, which observes the full spectrum of light, by the end of 2002. From a low Earth orbit, it will survey 10,000 stars near the galactic plane at the centre of the Milky Way.

During its three-year mission, it would observe stars over 150-day periods in the hope of recording a dip in their brightness. That might mark a lucky strike - the signature of an orbiting Earth-mass planet close enough to the host star to cross the telescope's line of sight.

*An article on Darwin appeared on April 15

Latex allergy solution

Allergic reactions to latex, the milky fluid from rubber trees, are an increasing problem among healthcare workers and others who frequently come into contact with latex products. They vary from mild skin rashes to fatal shock.

Between 10 per cent and 17 per cent of US healthcare workers have latex allergies, and up to 6 per cent of the US population may be latex-sensitive, says the American Academy of Allergy, Asthma, and Immunology.

Latex gloves are widely used by healthcare workers as a barrier against HIV, the virus which may lead to Aids, but others, such as police officers, food handlers and manicurists, wear them too.

One solution may lie in a desert shrub called guayule (pronounced why-you-lee). The Mexican shrub produces a natural rubber containing far fewer allergy-provoking proteins than the latex now used in some 40,000 products, but which is just as elastic and durable, says Katrina Cornish of the US Department of Agriculture.

Cornish, who developed the process to harvest the new latex and is working on ways to increase the shrub's rubber yield, says guayule does not require much water and can be grown without pesticides and herbicides.

No latex can be protein-free, but guayule latex contains only six to eight proteins while the natural latex from the tropical rubber tree Hevea produces none of 65 people allergic to Hevea latex was allergic to guayule latex.

Yulex, a small US company, has licensed the process to commercialise guayule latex from the US government. Dan Swiger, Yulex's president, says products such as halloo-tipped catheters may be available within three years, and latex gloves within four years.

Marjorie Shaffer

Steel car design races for the finishing line

Manufacturers hope to fight off aluminium, says John Griffiths

An international consortium of 35 steelmakers says it is on target with a joint project to show that high-strength steel car bodies can be built up to 35 per cent lighter, yet more strongly and more cheaply than existing models.

The consortium, including most of the world's main steelmakers, is commissioning a full economic analysis of the project by experts from Massachusetts Institute of Technology and Dts Associates, a US consultancy.

The cost model they will construct will enable carmakers to make comparisons based on their own cost and manufacturing assumptions, leaders of the UltraLight Steel Auto Body

(Ulsab) project said at the Seoul motor show in South Korea.

They were displaying elements of the Ulsab body design, with which the steel industry intends to fight competition from the aluminium industry, to help carmakers bring into production lighter cars with improved performance and fuel economy.

Parts for the Ulsab body will be built and tested this year, with construction of complete bodies scheduled in Germany by the end of the year. The two-year, \$22m (\$13.5m) project, under the control of Porsche Engineering Services, is due to be completed by next spring.

Results indicate that the project could "revolutionise car man-

ufacturing," according to German Sanz, the consortium's chairman. John Bryant, executive director of British Steel, says he is confident that the project "will enable the European automotive industry to manufacture lighter, stronger, safer cars".

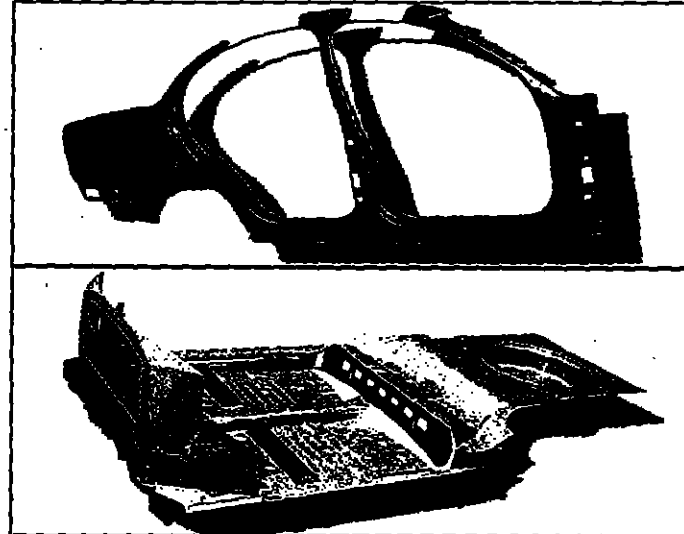
The Ulsab design is claimed to improve body rigidity by up to 132 per cent compared with existing structures used as the project's benchmarks.

Some cars, such as the Porsche Boxster, already use high-strength steels - 30 per cent in the case of the Boxster. Achieving the 35 per cent weight-saving of the full Ulsab body has also required optimised computer-

aided design, which may require new approaches to body assembly.

The biggest single part of the Ulsab structure is the body side outer. Its main feature is an optimised blank layout, fully laser-welded with different gauges and grades of steel. Its cost and mass are reduced because it does not require reinforcing components.

For the Ulsab floorplan, high-strength steel is used to permit a one-piece design, making it easier to assemble and to control the dimensions. Since there are none of the usual material overlap flanges of conventional designs, the mass is reduced - as is the welding required.



Light and strong: the body side outer and the one-piece floorplan

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THE GOVERNMENT OF THE ARGENTINE REPUBLIC
- Secretariat of Communications -

Privatisation of the concession of the services provided by the Argentine Postal Company

ENCOTESA

ENCOTESA, the Argentine state-owned company that carries out postal, financial and telegraphic services, is holding for a national and international public tender for the concession of its services.

The subject of the tender is a concession for 30 years to operate all the postal, financial and telegraphic services currently provided by ENCOTESA and such other services as it is authorized to provide.

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Enquiries regarding the privatisation process and the purchase of the terms of reference should be addressed to:

Dr. Arturo Puricelli
Central Post Office
2nd Floor, Presidency Secretary's Office
(1000) Buenos Aires
Argentina (Phone: 34-1-312-8323. Fax: 34-1-315-1249)

Terms of Reference ("El Pliego") must be purchased for: \$50,000 (fifty thousand Argentine pesos); equivalent to US\$ 50,000 (US dollars fifty thousand).

The Central Post Office will be open to the public for the sale of the Terms of Reference and related enquiries: As from April 14, 1997, to May 2, 1997.

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Closing date for submission of Prequalification bids: 20 May 1997 at 3:00 p.m.

Closing date for submission of Financial bids: 28 July 1997 at 3:00 p.m.

Advisors to ENCOTESA:

In Buenos Aires:

Messrs. Norberto Aguilera or
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**BRAZILIAN
PRIVATISATION**

Mr Antônio Kandir, Brazil's planning minister, will only forecast proceeds for this year of \$10bn from privatisations, perhaps because he fears to raise excessive expectations.

For a start, the Brazilian government is facing growing economic pressures which will act as a strong incentive to privatise. The government knows that it has to cut the budget deficit, which was worth 6 per cent of gross domestic product last year, if it is to secure the hard-won achievement of single-digit annual inflation.

	1990	1991	1992	1993	1994	1995
Brazil	7,442	6,535	6,254	7,244	6,631	6,481
Latin America (except Brazil)	7,109	15,915	12,851	7,249	4,631	3,481
East Asia & Pacific	979	8,995	7,151	3,457	2,537	2,247
Eastern Europe and Central Asia	1,304	2,783	4,341	4,151	2,879	8,937

Most of the railway system is to be sold by the end of 1998

The political environment, however, also gives some grounds for optimism that privatisation of state-owned assets will happen. The government's commitment of Mr Fernando Henrique Cardoso is enjoying a renaissance.

vent Banespa, the state-owned bank, from becoming a candidate for privatisation. His willingness to push ahead with selling the state's energy companies will be an important indicator.

the success of its anti-inflation reforms. If the government can show firm progress on privatisation, it will help remove the label of the country that promises more than it delivers.

Boeing shares slip as results disappoint

MGM in \$573m films buy
Metro-Goldwyn-Mayer, the privately-held entertainment

and television programmes in its main non-US markets. The deal excludes Metromedia's US chain of 50 cinemas.

Christopher Parkes

by aiming for the "quality" end of the burger market.
Richard Tomkins, New York

combined company will have a portfolio of 38m sq feet, of which it will own 23m sq ft.

first quarter, against a loss of 1.87bn pesos in the same period of 1996. Most of this

posted a 30m peso loss in the quarter, although Grupo Financiero Serfin recorded a net income of 46m peso profit due to a 77m peso profit at its brokerage house.

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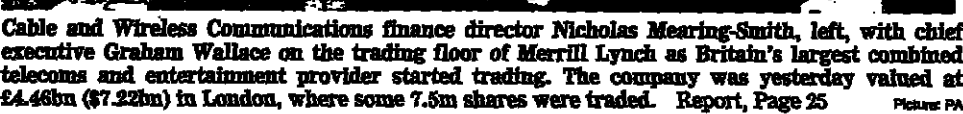
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COMPANIES AND FINANCE: EUROPE

Showdown looms over Finmeccanica

By Paul Betts in Milan

A showdown over the future of Finmeccanica is looming this week, with the boards of the Italian industrial conglomerate and of Iri, the state-owned holding company which controls it, due to meet tomorrow.

The meeting follows the surprise decision of Mr Fabiano Fabiani, Finmeccanica chairman for the past 12

years, to resign from the defence, aerospace, transport and high-tech conglomerate.

Mr Fabiani's sudden resignation last weekend came after a long-running power struggle, which reached a climax last week when Iri decided to reverse his strategy and shake up the loss-making group.

The boardroom drama upset financial markets yesterday, with Finmeccanica

ordinary shares falling 4.2 per cent to L910 and savings shares by 4.8 per cent to L832.90 on the Milan bourse.

Mr Luigi Fausti, who was yesterday appointed the new chairman of Banca Commerciale Italiana, which owns a 3.35 per cent stake in Finmeccanica, said that Iri would concentrate its efforts on Finmeccanica once the problems of the privatisation of the Stet telecommunica-

tions group had been resolved.

Answering shareholders' questions at yesterday's annual meeting in Milan, Mr Fausti said he hoped the process of privatising Finmeccanica would begin before the end of this year. Iri, he said, had confirmed its plans to BCI a few weeks ago.

Apart from elevating Mr Fausti from deputy chair-

man to chairman of the large privatised Milan bank, BCI also appointed Mr Gianfranco Guty, chief executive of Assicurazioni Generali, as deputy chairman. Mr Alberto Abelli and Mr Pier Francesco Saviotti, both BCI executives, were appointed managing directors.

The cloak-and-dagger nature of the Finmeccanica-Iri boardroom upheaval continued to make waves yesterday.

Trade unions have sided with Mr Fabiani, attacking Iri's proposal to transform Finmeccanica once again into a financial holding from the current integrated industrial holding.

However, the final outcome will rest on the position of the government, and especially the Treasury.

Lex, Page 18

Nutreco heads for summer flotation

By Gordon Cramb in Amsterdam

Nutreco Holding, the Dutch-based maker of animal feeds sold by British Petroleum in 1994 for \$425m, is to float on the Amsterdam stock exchange this summer in one of the market's biggest public offerings of the year.

The company, owned by venture capital institutions and management, announced the plan yesterday as it reported a 13.1 per cent rise in 1996 sales to Fl 4.56bn (\$2.36bn), and a 53.9 per cent jump in net profits to Fl 40.4m.

The flotation comes at least a year earlier than originally planned. Nutreco had indicated in mid-1995 that it would take between three and seven years to bring the company to market.

But Mr Richard van Wijnbergen, chief executive, said: "We feel that Nutreco is in good shape and ready to go."

The size of the offering is to be determined within the next six weeks in consultation with Goldman Sachs International and Rabo Securities, which have been appointed joint global co-ordinators for the issue.

With brands such as Hendrix, Trouw and Nanta, Nutreco is the largest supplier of pre-mixed and specialty feeds in western Europe, where it also has breeding and processing activities for meat and poultry.

The company said that its first-quarter performance showed a continuing improvement in spite of a swine fever outbreak in the south of the Netherlands which has affected its pig operations.

Mr Van Wijnbergen said: "We don't see a deviation of growth this year."

The company also ranks as the world's biggest producer of salmon and trout feed, with a market share of as much as 40 per cent. Its aquaculture division accounted for 21.5 per cent of group sales but 41.9 per cent of profits last year. Nutreco supplies big fish farming markets from Norway to Chile.

The group, with some 5,500 staff, has activities in 15 countries.

Group figures revealed by Lego

By Hilary Barnes in Copenhagen

Lego, the Danish-based toys group famous for its plastic building blocks, has published group sales and profits figures for the first time.

They showed that 1996 turnover rose 10.1 per cent, from Dkr6.84bn in 1995 to Dkr7.53bn (\$1.1bn) last year, but slower growth in net profits. Pre-tax profits at the family-owned company advanced 9.9 per cent from Dkr676m to Dkr739m. After tax, profits were ahead 6.3 per cent from Dkr491m to Dkr521m.

Mr Kjeld Kirk Kristiansen, chief executive and family head, blamed the slow profit growth on a heavy investment programme.

Lego, which expanded rapidly in the 1970s and 1980s, has struggled to maintain its growth momentum in recent years because of competition from computers and electronic games.

The company last year almost doubled its investment in fixed assets, to Dkr1.5bn from Dkr740m in 1995, as it prepared to launch a new series of toys, including a range of digital products. However, Mr Kristiansen yesterday stressed Lego bricks would remain at the heart of the company for the foreseeable future.

"Earnings are not satisfactory in the light of our long-term objective to self-finance the operation and



Building transparency: the Danish-based toys group published group sales and profits figures for the first time

Investment Photos

investments which we believe to be right and necessary," he said.

The group, which is controlled by two Danish and two Swiss parent companies, has previously only published figures for the Danish operations. The Swiss side added about Dkr1.7bn to the Dkr5.21bn sales figures published in 1995. The published pre-tax profit for 1996 was

Dkr413m and net profits were Dkr238m.

Last year's profits represented a return on assets of 6.9 per cent and a return on equity of 7.9 per cent; the ratio of equity capital to assets was an impressive 58.8 per cent.

Sales to retailers and distributors rose 4 per cent, compared with a decline of 2 per cent in 1995. Sales in

North America increased by 26 per cent, but in Japan sales fell by 30 per cent.

In Europe as a whole sales were up 1 per cent in a total market for toys which shrank by 3.6 per cent, Lego said. Sales were ahead in the UK, eastern Europe and Russia, but fell in Germany, France, Italy, Sweden and Switzerland.

The group is currently carrying out a restructuring and cost-cutting programme, which is on target to cut costs by 10-15 per cent over the two years to the end of 1997, it said.

Last year saw the highly successful opening of the Legoland park at Windsor in the UK, which is to be followed by the opening of a similar park at Carlsbad in California in 1998.

Telefónica seeking a quick divorce

The fallout of Telefónica's switch earlier this month to the Concert venture, which groups British Telecom and MCI, of the US, has begun to gather in Madrid.

Lawyers are negotiating the "divorce settlement" between the Spanish company and its former partners in Unisource, the alliance of smaller European telecom operators.

In spite of the upheaval to global telecom agreements caused by Telefónica's defection, the two estranged parties said yesterday the meetings had started on a "friendly and constructive" note.

Analysts said both sides could be anxious to achieve a rapid separation because Telefónica wants to develop its links with Concert, while Unisource, a link-up of the national carriers of the

Netherlands, Sweden and Switzerland, wants to bid for Spain's second operator, Retevisión.

The main obstacle to an amicable separation is understood to be the future ownership of Telefónica Transmisión de Datos, a

room for negotiation on TTD and we cannot at this stage say whether a penalty clause [because of Telefónica's unilateral withdrawal from Unisource] can be executed or not."

Telefónica said yesterday it was acting on the basis

The main obstacle to an amicable separation from the Unisource alliance is the future ownership of TTD, a data transmission company valued at Pta65bn

data transmission company valued at Pta65bn (\$453m), which the Spanish group incorporated into Unisource last year when it joined the alliance.

"We know Telefónica wants TTD back, but as far as we are concerned it is a 100 per cent Unisource company," the European alliance said. "Obviously there is

that there was no penalty clause.

"TTD is worth what its clients are worth and 80 per cent of them are our clients. They will go where we go," it said.

TTD is staffed by Telefónica employees and its users include several big Spanish corporations, including Iberia, the national airline;

Repsol, the energy group; BBV, the retail bank which is one of Telefónica's core shareholders; and Mapfre, the main domestic insurance group.

Unisource has to weigh whether it has more to gain from suing to retain part of

Retevisión when applications from potential buyers for the second operator closed last week, because it is still legally linked to Telefónica.

The alliance said yesterday it was nevertheless exploring the possibility of joining a consortium, formed by AT&T of the US and Germany's Mannesmann, which is likely to bid for Retevisión. Unisource is AT&T's main partner in European ventures.

Retevisión has also attracted the interest of Global One, which groups France Telecom, Deutsche Telekom and Sprint, of the US, and of Italy's Stet.

The government will announce today which operators have been pre-selected to offer formal bids for the second operator.

Tom Burns

EUROPEAN NEWS DIGEST

Pension funds sue Den Danske Bank

Four Danish pension funds are to sue Den Danske Bank for losses sustained when they subscribed to a Dkr1.8bn (\$274m) share issue from the Hafnia insurance group in 1992. Four months after the issue, Hafnia filed for bankruptcy and shareholders lost their money.

The pension funds are also claiming compensation from Paribas, the French bank, and the Copenhagen stockbroker Ejerskov, who shared responsibility with DDB for the Hafnia issue. The Hafnia group, at that time Denmark's second-largest insurance group, fell foul of the financial markets when Hafnia Holding, the parent company, bought heavily into its domestic rival, Baltica (which itself had to be rescued by DDB in 1993) and into Scandia, the Swedish insurance company.

A dramatic drop in the price of the shares in these two companies wiped out Hafnia's equity in the summer of 1992. Hafnia's operational insurance companies were subsequently taken over by Codan, the Danish insurance company controlled by Royal Sun Alliance of the UK.

Hilary Barnes, Copenhagen

Hampel to head Creditanstalt

Mr Erich Hampel, 46, head of Austria's state-owned Post Office savings bank, is today expected to be made chief executive of Creditanstalt, Austria's second-biggest bank. He replaces Mr Guido Schmidt-Chiari, 64, who has headed the bank since 1988 and is stepping down following Bank Austria's acquisition of majority control.

Mr Hampel's appointment follows weeks of uncertainty about Creditanstalt's new management team. Mr Alarich Fockes, 52, head of Creditanstalt's international division, is believed to be the only member of Creditanstalt's six-man board to continue in the office.

William Hall, Zurich

Strong start for BHW issue

Shares in BHW Holding, the German building finance group, rose yesterday on the first day of trading of the group's new DM1.4bn equity issue - the largest in Germany this year. However, analysts gave the issue a lukewarm reception, with many expecting the share price to make little headway in coming weeks. The share offer price was fixed at DM26, but shares rose to about DM28 in trading yesterday.

"The company has presented itself as a growth stock but the growth is already in the share price," said one analyst. Mr Dieter Helm, banking analyst at BHF Bank in Frankfurt, said: "BHW has defined its ambitions to be number one in such a narrow industry area that this has no meaning. I think the offer was overpriced and I expect the share price to fall after a short while."

Graham Bowley, Frankfurt

Deutsche Bank launches fund

Deutsche Bank, Germany's biggest, has launched a DM25m (\$20.2m) fund to give young, innovative technology companies access to new capital. Deutsche said the fund was the first of its kind in Germany. Deutsche Bank said the fund - which would be increased to DM45m if it proved successful - was its attempt at helping German small and medium-sized companies.

Last month Germany's new stock market segment for young, innovative companies - the Neuer Markt - began trading but so far only two companies are listed on it.

Graham Bowley

SAB to build plant in Kenya

South African Breweries, the world's fourth-largest, is expanding its network of African interests to Kenya by building a \$45m brewery at Thika, near Nairobi. The new plant will challenge Kenya Breweries, the dominant national brewer, in which Guinness has a 21 per cent interest and the Kenyan government 20 per cent.

The Thika brewery is a joint venture between SAB, which will take an interest of 55 per cent, and Donyo Sabuk Holdings, a consortium of Kenyan entrepreneurs which will hold 30 per cent. FMO, a Dutch Development Agency, will hold the balance of shares in the new company.

Mark Ashurst, Johannesburg

Volvo targets eastern Europe

Volvo, the Swedish motor manufacturer, plans to expand its service network for trucks across central Europe and the former Soviet Union in an attempt to lift sales in the area. Mr Tommy Rengman, head of Volvo Truck's Europe division, said the company was looking to countries such as Poland, where it already has an assembly plant, and the former Soviet Union to improve its results in the face of a weakening markets in western Europe.

Volvo's truck sales in Europe fell 22 per cent in this year's first quarter.

Christopher Bobinski, Warsaw

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Final maturity of the warrants attaching to the participatory certificates with warrants of 1992 issued by Deutsche Bank AG

Pursuant to the Conditions of Warrants, the option rights conferred by the above warrants may be exercised until June 30, 1997 inclusive. Since, however, the period between the last day of deposit (May 12, 1997) and the third banking day after the general meeting is expected, the option rights cannot be exercised in the period from May 13 to May 22, 1997 inclusive. The warrants are not valid after June 30, 1997.

Warrantholders may, until the subscription period ends, exercise their subscription rights for Deutsche Bank AG shares pursuant to the Conditions of Warrants. As the share capital of Deutsche Bank AG has been entirely redenominated in shares of par value DM 5 each, ten shares of par value DM 5 each will be issued instead of one share of par value DM 50 whenever subscription rights for a minimum of five warrants are exercised. The subscription price is DM 610 per 10 shares of par value DM 5 each. The shares are entitled to the full dividend for the current financial year 1997.

To exercise subscription rights, the warrantholder must file with Deutsche Bank AG, Frankfurt am Main (as warrant agent), through a receiving agent, written notice of exercise on a form available from the receiving agents. Notice of exercise is binding.

When notice of exercise is filed, the subscription price must be paid and the warrants presented with receipts A to H still attached. Notice of exercise is effective only if the subscription price and the warrants have been received by Deutsche Bank AG, Frankfurt am Main, by Monday, June 30, 1997 at the latest.

Warrantholders wishing to exercise their subscription rights are requested to contact their depository banks, from which the necessary forms may also be obtained, as soon as possible. For legal reasons, notice of exercise received after the above date cannot be accepted.

In accordance with stock exchange practice, the warrants will be traded and officially quoted on the German stock exchanges for the last time on June 23, 1997.

Frankfurt am Main, April 1997

The Board of Managing Directors

...shares slip
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Debt: Australia
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M&A Advisory: Brazil
Restructuring and sale of Banco Economica to Banco Leao.

Equity: Japan
Joint bookrunner of the JPY240 billion mandatorily convertible preference share issue.

Debt: Spain
Arranger of the USD500 million EMIN programme.

Equity: Belgium
Structuring of seasonal equity linked and index linked equity products.

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Debt: Japan
Co-lead manager of the mandatorily exchangeable subordinated notes, exchangeable into common stock for Sumitomo Bank.

M&A: Australia/Singapore
Adviser on the acquisition of an additional 20% shareholding in MMI of Australia, and DAME's acquisition of a 20% stake in Allianz Insurance, Singapore.

Equity: Korea
Joint sponsor, lead manager and bookrunner of the HKD750 million initial public offering of 75 million ordinary shares for Kookong On Bank.

Advisory: Australia/UK
Adviser on the group's demutualisation in Australia and restructuring in the UK.

X

M&A Advisory: Mexico
Adviser on the bancassurance joint venture with Axa Life and Casualty Company.

Debt: UK
Bookrunner of three issues totalling GBP500 million of subordinated debt, maturing 2006/20 for Lloyd's TSB.

Equity: Italy
Co global coordinator and bookrunner of the ITL440 billion international institutional offering.

Debt: Switzerland
Bookrunner of the USD732 million global convertible offering.

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Debt: UK
Arranger of the USD1 billion euro commercial paper programme for Northern Rock Building Society.

M&A Advisory: UK
Adviser and broker on the acquisition of the outstanding minority interest by Lloyd's TSB.

Debt: Mexico
Lead manager of a USD100 million issue of remittance linked certificates for Banco Internacional.

Equity: Norway
Global coordinator and bookrunner on the secondary sale of 12% of the Government's stake in Den norske Bank.

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Making it happen in Financial Institutions.

Pay \$3,000

NOTICE OF EARLY REDEMPTION

TELECOM ARGENTINA STET-FRANCE TELECOM S.A.
U.S.\$200,000,000
9.00% Bonds Due 1997

Telecom Argentina Stet-France Telecom S.A. (the "Company") hereby notifies holders of the Company's 9.00% Bonds Due 1997 (the "Bonds") issued pursuant to an Indenture dated as of August 4, 1992 among the Company and First Trust of New York, National Association, as successor Trustee to Morgan Guaranty Trust Company of New York, as Trustee, under the title "Indenture", of its election to redeem the Bonds on May 22, 1997 (the "Redemption Date") pursuant to paragraph 3(c) of the Terms of the Bonds. Under the circumstances set forth herein, a holder of Bonds may elect not to surrender such Bonds for redemption. The Bonds clear through Euroclear and CEDEL under Common Code No. 3894665 (for Bearer Bonds) and 3894690 (for Registered Bonds) and through DTC (CUSIP no. 879273AA8). The ISIN numbers are XS0038946652 (for Bearer Bonds) and US879273AA88 (for Registered Bonds). Any capitalized terms used but not defined in this notice shall have the meanings assigned in the Indenture.

The Company's election to redeem the Bonds follows the enactment in Argentina of Federal Act 24,587 on November 21, 1995 (O.G. November 22, 1995) (as implemented by Decree 259/96 issued on March 18, 1996 (the "Act")). The Act provides, among other things, that outstanding bearer securities issued by Argentine companies shall be converted into registered form securities, and that failure to effect such conversion prior to May 22, 1996, will result in the imposition of additional taxes on payments of interest and other amounts payable with respect to the Bonds, and the suspension of the existing exemption from withholding taxes in respect of interest paid on Bearer Bonds. Pursuant to Decree 547/96, the effective date of the Act with respect to the Bonds has been delayed until May 23, 1997. The Company has delivered to the Trustee a certificate of the Company and an opinion of an independent auditor of the Company certifying that the Company would be obligated to pay Additional Amounts due to a change in Argentine tax laws, the text of which certificate and opinion are set forth below. Accordingly, the conditions precedent to a redemption of the Bonds have occurred. Holders of Bonds may elect not to surrender such Bonds for redemption on the condition that (a) the Republic of Argentina (or any political subdivision thereof or therein having the authority to tax or grant relief from tax obligations) shall have taken a final action which shall result in the Act ceasing to be in effect with respect to the Bonds (whether by abrogation, extension or other relief) which has been notified to the holders in the manner contemplated by the Indenture and (b) the holder of Bonds shall, prior to 5 p.m., Eastern Standard Time on May 20, 1997, provide the Company and First Trust of New York, National Association, Trustee under the Indenture, with a written notice in the form requested by the Company, which form shall be delivered to the Trustee by the Company to be available upon request by the holders, in the event that such holder waives its right to redeem and will not surrender such Bonds for redemption, but rather will hold such Bonds to their stated maturity (an "Election to Hold").

On the Redemption Date, the Bonds will be paid as specified herein. In accordance with the terms of the Indenture, the redemption price shall be 100% per U.S.\$1,000 principal amount of the Bonds, plus accrued interest on the principal amount of the Bonds, together with interest on the principal amount of the Bonds to the Redemption Date in the amount of U.S.\$27 per U.S.\$1,000 principal amount of Bonds. On and after the Redemption Date interest on the Bonds shall cease to accrue, other than with respect to any such Bonds as to which the holder has made an Election to Hold, which Bonds shall continue to accrue interest to stated maturity.

Payment of the Registered Bonds will be made at the office of First Trust of New York, National Association, 100 Wall Street, New York, New York 10005, as successor Trustee to Morgan Guaranty Trust Company of New York, P.O. Box 161, 60 Victoria Embankment, London EC4A 3JP, Banque Paribas Luxembourg, 10A Boulevard Royal, L-2093 Luxembourg, Swiss Bank Corporation, 1 Aeschenvorstadt, CH-4002 Basel or Banco Rio de la Plata, 25 de Mayo 140, 1st Basement (Titles Dept.), Buenos Aires, Argentina, the Company's paying and transfer agents outside the United States.

Payment of the Bonds will be made upon presentation and surrender of the Bonds to be redeemed, together (in the case of a Bearer Bond) with all Coupons maturing on August 4, 1997. Bearer Bonds must be presented for redemption together with all unexpired Coupons falling due on or after the date of the Bonds, and all unexpired Coupons will be deducted from the sum due for payment. All unpaid interest installments represented by Coupons which shall have matured on or prior to the Redemption Date shall continue to be payable to the holders of such Coupons, and the amount payable to the holders of Bearer Bonds presented for redemption shall not include such unpaid installments of interest unless Coupons representing such installments shall accompany the Bonds presented for redemption.

IMPORTANT NOTICE
Under the Interest and Dividend Compliance Act of 1983 as amended by the Energy Policy Act of 1992, 31% will be withheld if tax identification number is not properly certified with respect to payment of Registered Bonds made by a paying agent in the United States.

CERTIFICATE OF TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

April 4, 1997

First Trust of New York,
National Association, as Trustee
100 Wall Street
New York, New York 10005

Ladies and Gentlemen:

Pursuant to the provisions of Section 11.2 of the Indenture (the "Indenture") dated as of August 4, 1992 between Telecom Argentina Stet-France Telecom S.A. (the "Company") and First Trust of New York, National Association, as successor Trustee to Morgan Guaranty Trust Company of New York, as Trustee, under the title "Indenture", relating to U.S. \$200,000,000 aggregate principal amount of the Company's 9.00% Bonds Due 1997 (the "Bonds"), and pursuant to paragraph 3(c) of the Terms of the Bonds, in connection with the Company's election to redeem the Bonds, the Company hereby certifies to you that the Company's obligation to pay Additional Amounts on the Bonds as required by Federal Act 24,587 of the Republic of Argentina cannot be avoided by the Company taking reasonable measures available to it.

Any capitalized terms used but not defined in this notice shall have the meanings assigned in the Indenture.

Very truly yours,

TELECOM ARGENTINA STET-FRANCE TELECOM S.A.

By: */s/ Juan Carlos Masironi*
Title: Chairman of the Board of DirectorsBy: */s/ Giorgio Ribotta*
Title: Vice-Chairman of the Board of Directors

OPINION OF PRICE WATERHOUSE & CO.

Buenos Aires, April 4, 1997

To the President and Directors of
Telecom Argentina Stet-France Telecom S.A.
Maipú 1210 - 9th floor
Buenos Aires

and
To First Trust of New York,
National Association, as Trustee
100 Wall Street
New York, New York 10005

Dear Sirs:

In accordance with your request, and in our capacity as independent auditors of Telecom Argentina Stet-France Telecom S.A. ("the Company"), we have analyzed the impact on the Company of the terms of Law No. 24,587 and its regulatory decree in relation to the issue of Corporate Bonds for U.S. \$200,000,000 due 1997 (the "Bonds"), in the form of individual bearer securities.

Our work has been based on the interpretation of Law No. 24,587 and its regulatory decree, and on a review of Section 3(a) of the Terms and Conditions of the Bonds.

On the basis of the work performed we are of the opinion that the Company shall be required to pay additional amounts in accordance with the penalties laid down by Law No. 24,587 and its regulatory decree.

Yours truly,

PRICE WATERHOUSE & CO.

By: */s/ Juan Carlos Grassi*
(Partner)
Certified Public Accountant

Questions concerning the redemption of the Bonds can be directed to the Trustee, attention of Helen Chin at (212) 361-2531, or to the Company, attention of Elvira E. Lazzari at (541) 968-3604 or (541) 968-3606.

Royal & Sun Alliance
Small Shareholders

wish to announce
an extraordinary
Pre AGM
meeting to be held on
6th May at 11 am.
Park Suite, Dorchester Hotel, London
Light refreshments will be served

Republic of Poland
U.S.\$137,356,000 Due 2009
In connection with the 1994 Foreign Deposits of the Republic of Poland
Notice is hereby given that the Rate of Interest for the Interest Period
April 29, 1997 to October 29, 1997 has been fixed at 6.9375% and
that the interest payable on the relevant Interest Payment Date October
29, 1997 for the first Interest period will be U.S.\$535.27 in respect of
U.S.\$1,000 nominal of the Bonds.
April 29, 1997, London
by Citibank N.A. (Corporate Agency & Trust), Agent Bank **CITIBANK**

THE ROYAL BANK OF CANADA

U.S. \$350,000,000 Floating Rate

Debentures due 2005

In accordance with the Terms and

Conditions of the Debentures, the

interest rate for the period 30th

April, 1997 to 30th May, 1997 has

been fixed at 5.75% per annum.

On 30th May, 1997 interest of U.S.

\$4,791,667 per U.S. \$1,000 nominal

amount of the Debentures will be

due for payment. The rate of interest

for the period commencing 30th

May, 1997 will be determined on

28th May, 1997.
Agent Bank and
Principal Paying Agent
ROYAL BANK OF CANADA

SOCIETE GENERALE

USD 272,000,000

SUBORDINATED FLOATING

RATE NOTES DUE 1999

ISIN CODE : GB0048179054

For the period April 25, 1997 to

October 27, 1997 the new rate has

been fixed at 6.6125 % p.a.
Next payment date:
October 27, 1997
Coupon is: 19
USD 33,980.50 for the
debt of USD 1,000,000
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE
BANK & TRUST S.A.-LUXEMBOURG
By: */s/ Jean-Louis*

Agent Bank

COMPANIES AND FINANCE: EUROPE

Enso buys Holtzmann holding

By Greg McIvor
in Stockholm

Enso, the Finnish pulp and paper group, has bought a 50.4 per cent stake in E. Holtzmann & Cie, the privately-owned German paper company, for DM606m (\$349m).

The deal marks a further step in a restructuring of the European forestry industry in which the large Nordic producers have sought to cement strong market positions through acquisitions in continental Europe.

Mr Jukka Hamälä, Enso chief executive, said the group would become Europe's third-largest supplier of publication papers, measured by production capacity, after

UPM-Kymmene, of Finland, and Sweden's Stora. Publication papers are used mainly in newspapers and magazines.

Holtzmann, based in Karlsruhe, produces about 700,000 tonnes a year of newsprint, uncoated magazine paper and wallpaper base. It made operating profits of DM183m last year on sales of DM518m.

Enso said it would increase its interest in Holtzmann by 39 per cent next year and eventually to 100 per cent, taking the total value of the acquisition to about DM1.2bn.

Mr Hamälä said that the acquisition fitted with Enso's strategy of building size and concentrating on three product segments: publication paper, fine paper and packaging.

Enso's goal was to be one of Europe's top three groups in each area.

"If you produce a paper grade you have to be a major player. As publishers are getting bigger and bigger, they will only want to deal with large suppliers," he said.

"The purchase of Holtzmann's uncoated magazine paper capacity would be an important addition to the group's portfolio," Mr Hamälä said. "The big publishers want a full palette of grades."

The addition of Holtzmann raises Enso's newsprint capacity to 1.3bn tonnes, consolidating its position as one of Europe's biggest producers of the grade. The European market amounts to about 9bn tonnes a year.

Mr Jukka Huuskonen, senior investment analyst at Arcot Securities in Helsinki, said Holtzmann was one of the few interesting continental acquisition targets for Scandinavia's big forestry groups which had not already been bought.

"It makes a perfect fit, as Enso is already a major newsprint manufacturer in Germany," Mr Huuskonen said.

Since 1994 Enso has operated a newsprint mill near Leipzig with annual capacity of 280,000 tonnes. Enso made pre-tax profits of FM1.66bn (\$320m) on sales of FM25.7bn last year.

The group's most-traded R shares dipped FMI to FM42.50 in Helsinki yesterday.

Black gold investors revise plans

JCI deal seen as the last of the 'megadeals' aimed at economic empowerment

The sale of Anglo

American's controlling

stake in JCI, the

world's sixth-largest

gold producer, to

African Mining

Group, a consortium of

black investors, has

been radically

revised following this

year's sharp drop in

the Johannesburg

gold index.

Safilife, a local

institution controlled

by JCI's new chairman,

Mr Mzi Khumalo, will

acquire 30 per cent

of the 34.9 per cent

stake sold to AMG last

November. Safilife

has announced a

R2.4bn (\$39m) rights

issue to fund the

acquisition, which

will transform it from

a financial services

group to a mining-based

conglomerate.

The market has reacted

nervously to the

prospect of

Safilife raising almost

90 per cent of the

capital to create

South Africa's first

black-controlled

mining house. Safilife

shares lost R4.75, or

almost 20 per cent, to

close at R19.75 following

the announcement

early this month. Last

week they were

trading at R19.60.

The reaction reflects

the suspicions of many

Johannesburg financiers

that JCI is likely to be

the last in a series of

'megadeals' designed

to promote black

economic empowerment.

The new funding

arrangement is far

removed from that

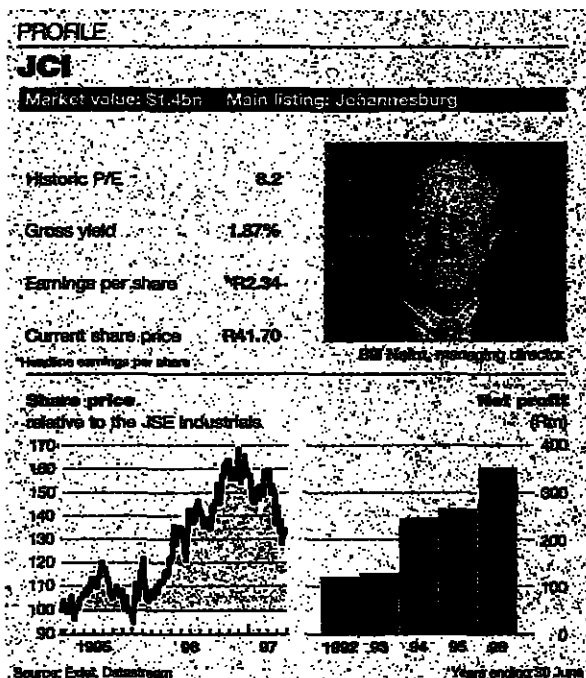
envisaged in November,

when AMG offered R2.9bn,

or R54.50 a share, for

Anglo's stake in

JCI. The buyers



originally stipulated that no single member of the consortium would hold more than one-fifth of the total stake. However, the drop in the Johannesburg gold index has thwarted their attempts to finance the deal outside Safilife. JCI shares dropped 20 cents on Friday to close at R41.70.

The gap between the purchase price - which included a 10 per cent premium to JCI's market value in November - and JCI's current share price has divided opinion in Johannesburg

and the Safilife rights issue has since been fully underwritten by a syndicate of local and foreign institutions. "International support for the big black empowerment deal is much stronger than domestic support - and that has surprised all of us," says Mr Alexander Wilmut-Sitwell, executive director of corporate finance at SBC Warburg, which advised AMG.

In lieu of a direct stake in JCI at this stage, other AMG members will receive shares in Safilife, which will be pooled with Mr Khumalo's consortium. The enlarged voting pool will hold 50.1 per cent of Safilife, and will include the investment arms of the National Union of Mineworkers and the South African Clothing and Textile Workers Union, whose representatives are likely to join the JCI board.

The terms of the current voting pool dictate that all decisions made by the voting pool must be unanimous. "AMG's interest in Safilife will be comparable in terms of influence [to a direct stake in JCI], but not in terms of size," one AMG insider says.

Contrary to an announcement in February that Safilife would acquire the full 34.9 per cent of JCI, Anglo has said the balance of 4.9 per cent will be made available directly to other members of the consortium. A one-year option on these

shares had been granted to AMG members.

It is not yet clear which institutions will provide financing for AMG members to participate in the Safilife rights issue, nor how much they will take up.

But Mr Stephen Koseff, managing director of Investec, an investment bank with a 12.5 per cent stake in Safilife, says "more than half" the underwriters' money will come from local institutions - including Investec, Board of Executors, and Southern Life, a subsidiary of Anglo. The largest foreign investor is SBC Warburg, which will guarantee R700m, almost 30 per cent, of the R2.4bn issue.

These institutions are counting on JCI to emulate Gencor, South Africa's second-largest mining house, and Randgold, which have eliminated the discount to net asset value in their share prices. Mr Koseff expects "a fundamental reorganisation" at JCI to unlock the full value of its 71m oz gold deposit at Western Areas mine, the biggest payable gold reserve in the world.

But with a stagnant bullion market and persistent productivity problems at South African mines, Mr Khumalo's next battle will be to win the confidence of investors, who have traditionally undervalued Johannesburg gold stocks relative to other producers.

Mark Ashurst

Profit fall at SCA steeper than forecast

By Greg McIvor
in Stockholm

SCA, Sweden's largest forestry group, disappointed investors yesterday with a steeper than expected decline in first-quarter profits in spite of strong demand.

Pre-tax profits fell from SKr1bn to SKr894m and earnings per share dipped from SKr3.07 to SKr2.62, lower than average market forecasts.

Like all Scandinavia's big pulp and paper groups, SCA has suffered from narrowing margins in the past year as prices of key paper grades have headed down.

Mr Sverker Martin-Lof, SCA chief executive, said prices of printing papers and fine papers had stabilised, while price increases had been announced for liner - the main ingredient of packaging.

But he warned that pressure was building on prices in hygiene products the group's biggest division, with 45 per cent of sales. Demand was expected to remain strong but costs of raw materials, notably wood pulp and recycled paper, would also rise.

Leading European and North American suppliers recently announced an increase in pulp prices from \$520 a tonne to \$580, starting next month.

SCA's most-traded A shares closed down SKr4.50 to SKr167.50. Operating profits

decreased from SKr1.27bn to SKr1.1bn, including a SKr125m one-off gain. SCA booked a SKr250m non-recurring gain in the first quarter last year.

The operating margin shrank from 8.6 per cent to 7.9 per cent, although the hygiene products division lifted its margin from 8 per cent to 11 per cent.

Group turnover was SKr14.2bn, against SKr14.7bn.

Operating profits in hygiene products rose from SKr519m to SKr686m, outstripping growth in sales from SKr6.3bn to SKr6.5bn. Volumes rose 11 per cent and prices slipped 5 per cent as raw materials prices fell.

SCA said growth was favourable in incontinence and feminine hygiene products, helped by low raw material costs. Tissue volumes rose to 180,000 tonnes, up 10 per cent.

Packaging sales fell 12 per cent to SKr3.3bn. Lower prices of corrugated packaging and liner triggered a sharp fall in earnings despite lower raw material costs.

Operating profits in packaging slid from SKr418m to SKr193m, although this represented a 17 per cent improvement on the fourth quarter last year - the second consecutive quarter of higher profitability.

In graphic paper, operating profits dipped from SKr222m to SKr155m on sales up from SKr3.9bn to SKr4.2bn.

Bouygues in talks on telecoms partnerships

By David Owen in Paris

Bouygues, the French construction group, yesterday confirmed it was in talks with Lyonnaise des Eaux, the French utilities and communications group, about possible telecommunications partnerships.

Bouygues operates France's third mobile telephone network, although the activity so far accounts for relatively little of its annual turnover of more than FF90bn (\$13.7bn). Lyonnaise des Eaux is hoping to take advantage of liberalisation to diversify into telecoms through its extensive cable network.

Mr Martin Bouygues, chairman, also revealed the company was in talks on possible telecoms ventures

with a number of international groups. Last year, it joined forces with Stet, the Italian group, to challenge for a share of the French market.

Earlier this year, however, Bouygues suffered a setback when SNCF, the French state-owned railway, chose the telecoms operation of rival Générale des Eaux to help develop its telecoms network.

Separately, the company said it was considering a change in its accounting methods to bring them into line with international standards. The change would mean the company included profits from individual construction projects as work on the sites progresses, rather than all at once when the jobs are completed.

The company also said it expected to include non-recurring profits of FF600m in 1997 - similar to last year, when they accounted for a high proportion of overall profits of FF654m.

Paribas, the French financial group, yesterday confirmed it had sold its 3.5 per cent stake in Havas, the communications group. AP-Dow Jones reports from Paris.

The company said it had been a "gradual process". Press reports said Paribas sold its stake for about FF1bn.

The sale has raised speculation that that other minority shareholders may sell their stakes. These include the state-owned Caisse des Dépôts et Consignations and France Telecom.

MERCURY SELECTED TRUST (SICAV)

Postal address: B.P. 1058, L-1010 Luxembourg

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of Mercury Selected Trust ("the Company") will be held at its registered office at 6D, route de Trèves, L-2633 Senningerberg at 11.00 am on 15th May 1997 for the purpose of considering and voting upon the following matters:

Agenda

1. To accept the Directors' and Auditors' reports and adopt the financial statements for the year ended 31st December 1996.
2. To declare such dividends for the year ended 31st December 1996 as may be recommended by the Board in accordance with the dividend policy of the Company and to fix their date of payment.
3. To discharge the Directors from their responsibilities for all actions taken within their mandate during the year ended 31st December 1996 and to approve their remuneration.
4. To re-elect Mr P. Stormon, Mr J. Reimann, Mr Z. O. H. M. Baron van Hovell and Mr F. Tesch and to ratify the co-optation of Mr S. B. Cohen, Mr D. Ferguson, Mr P. Le Feuvre, Mr V. McViney and Mr B. Sone as Directors.
5. To discharge the Auditors from their responsibilities for all actions taken within their mandate during the year ended 31st December 1996.
6. To re-elect the Auditors.
7. To decide on any other business which may properly come before the Meeting.

Voting

Resolutions on the Agenda may be passed without a quorum, by a simple majority of the votes cast thereon at the Meeting.

Voting Arrangements

The holders of bearer shares must deposit their shares not later than 7th May 1997 either at the registered office of the Company, or with any bank or financial institution acceptable to the Company, and the relative deposit may be obtained from the registered office of the Company. The Shares so deposited will remain blocked until the day after the Meeting or any adjournment thereof.

Shareholders who cannot attend the Meeting in person are invited to send a duly completed and signed proxy form to the registered office of the Company to arrive

THE BUSINESS OF FOOTBALL

New wealth has transformed Britain's top clubs, although lower down the ladder most still struggle financially. And there are questions over the sport's love affair with the stock market. Patrick Harverson reports

Route to riches for fortunate few

The renaissance of British professional football in the 1990s has been nothing short of remarkable.

At the end of the 1980s, the national sport appeared mired in permanent decline, dogged by international footballing failure, poor quality domestic leagues, dwindling crowds, a small hardcore of violent fans, and decrepit - sometimes dangerous - stadiums.

Yet, in the past seven years, many of the soccer stadiums have been modernised and made safe, the hooliganism problem has been tackled, the crowds have been lured back by the Premiership, one of the most exciting and glamorous leagues in world football, and the national team has been made competitive again. The sport has even become fashionable in a way not seen since the 1960s and the heyday of George Best.

Rising income from the sale of television rights, sponsorship, advertising, club merchandise, corporate hospitality and gate receipts have dramatically altered the economics of the game.

While some of the new wealth has been handed

back to the players in the form of higher wages, and transfer fees remain a substantial cost, for the top clubs the prospects for profit look good, particularly if the introduction of pay-per-view (PPV) programming on digital television - due near the turn of the century - proves popular with the public.

The growing prosperity of football's elite has attracted the attention of corporate, institutional and wealthy private investors. It was their new-found interest in the sport less than two years ago that created the foundations for perhaps the most extraordinary recent development in the business of football - the rush of football clubs to join the stock market in the last 18 months.

Since 1996, the number of clubs listed on the market has jumped from five - Tottenham Hotspur, Millwall, Manchester United, Celtic and Preston North End - to 15, a figure that will climb this year as more clubs prepare to float. The sector's combined market capitalisation today stands at about £1.25bn, a figure that roughly doubles if the value of the bigger clubs whose shares are traded outside the market is included.

Two factors sparked the rush of clubs to the market. The clubs needed money to fund the redevelopment of their stadiums, the purchase of players and the growth of

their commercial activities, and investors were happy to hand it over to them in return for a share in the game's future riches. Rising revenues, particularly from television, and an improvement in the quality of business management in the game, helped persuade institutional and private investors that some clubs were potentially profitable enterprises.

Also, clubs floated because their businessmen owners saw an opportunity to cash in on football's popularity within the City of London. Only a few have sold out completely, but most owners have been happy to maintain significant stakes in their clubs while enjoying the dramatic appreciation in the value of their equity holdings.

However, football's love affair with the stock market has not gone smoothly. The relationship has been rocked in the last three months by a sharp fall in football club share prices amid profit-taking by professional investors, a deterioration in some clubs' playing performances, and a growing realisation within the investment community that shares had been pushed far too high on unrealistic assumptions of future profits growth, particularly from pay-per-view television.

In spite of these setbacks, football is now well-established as a stock market sector in its own right. Nor do investors just see football as part of the burgeoning lei-

sure industry. They also regard buying shares in many of the bigger clubs as an investment in the media industry. A stake in a top club affords the opportunity to share in the income generated from the increasingly valuable broadcasting rights that the clubs own either collectively or individually.

However, the transformation of football as a business has not been achieved at every level of the professional game. Anything but, in fact, for football's new-found riches have so far

been confined primarily to the big clubs in the Premier League. The trickle-down effect, whereby rising income at the top should have enriched clubs throughout the lower leagues, has not happened. Most clubs are chronically unprofitable, a large number remain heavily in debt, and a sizeable minority would go out of business were it not for sympathetic bankers, indulgent deep-pocketed owners and loyal, if long-suffering, fans.

For scores of medium and

small-sized clubs, the economics of the game simply do not add up. Revenues from television rights sales have climbed, but not nearly enough. Attendances are up but can be volatile because they remain closely tied to performance, and merchandising is a modest business outside the Premiership.

Most importantly, changes in transfer patterns dictated by the "Bosman" ruling in the European Court of Justice - which allowed out-of-contract players to move to clubs in other countries

without a transfer fee - have persuaded the bigger British clubs to buy fewer young players from smaller domestic clubs and more older players from overseas. The result has been a reduction in the flow of income to the lower leagues that for so long has been a financial lifeline for smaller clubs. And while they are being deprived of a vital source of funds, many smaller clubs remain tempted to invest substantially in transfer fees and higher wages for better play-

ers in the hope of gaining promotion to a higher division.

The result is most clubs lose money, and such is the parlous state of football's finances outside the Premiership that the English Football League has commissioned the accountants Deloitte & Touche to draw up options for a radical restructuring of the three lower divisions.

Among the possible suggestions are a return to geographically-based divisions that would cut down on clubs' travelling costs, increase the number of lucrative local "derbies", and an encouragement of closer financial and footballing ties between the top clubs and those lower down the leagues. While many in football oppose the idea of small clubs becoming "feeder teams" for the Premiership elite, such alliances are clearly the shape of the future.

The growing gap between the haves and have-nots is also troubling football in Scotland. There, clubs in the Premier Division - long dominated unhealthily by the Glasgow giants, Celtic and Rangers - and in the three lower divisions realise, like their counterparts in England, that they need to find a way to ensure the bigger clubs can benefit more from their popular appeal without jeopardising the existence of their smaller brethren.

Amid the changes reshaping football's landscape, the sport faces many trials: how to cope with the continuing aftershocks of the Bosman ruling; how to handle the introduction of pay-per-view television; how to manage the creation of a European super league without threatening the vibrancy of the domestic leagues.

Yet it is the issue of how the bigger clubs can continue to nurture their growth as businesses while sharing their new-found wealth more equitably to protect the grass-roots of the game that remains arguably football's biggest challenge.



Illustration: Andrew Burns

TELEVISION • by Patrick Harverson

Cosy relationship will be tested

Clubs themselves may eventually hold control of match broadcasting

It has always been evident that football needs television and television needs football.

For football, television is the sport's shop window, and in the last five years Sky Sports' coverage of the English Premier League has proved what an effective shop window it can be. For television, football attracts large audiences and viewers the advertisers want to reach: for pay-to-view broadcasters like Sky, the

sport sells subscriptions like no other programming.

However, in the next few years the nature of the relationship will almost certainly change, and football and television will find out which needs the other the most. Media and legal experts believe that eventually football, in the form of the largest and most powerful clubs in Europe, will emerge with the upper hand.

For the moment, however, football is beholden to the broadcasters, and with good reason. In Britain, the hundreds of millions of pounds invested in football by Sky has enriched many clubs beyond their wildest dreams.

Before the formation of the Premier League in 1992, the top clubs earned well under £1m a year from the sale of broadcasting rights. Under the terms of the league's new four-year deal with Sky, starting with the next season in August, an average mid-table Premier-ship club will earn about £2m a year from domestic broadcasting rights. Clubs that do well in top European competition could ultimately double that figure.

The growth in television revenues should accelerate further once pay-per-view (PPV) coverage of football using new digital technology has been introduced. This

will allow the big clubs to tap directly into demand for their games.

However, with so many questions about PPV unanswered - how much will the service cost viewers? how will the broadcaster share the revenues with the clubs? and how will the clubs share their income among themselves? - predicting future revenues is difficult.

Forecasts compiled by UBS, the London securities house, estimate that by 2000 the top Premier League clubs will be earning an extra £5m a year from PPV, and those lower down the table about £3m a year more than at present. By 2002, UBS believes those totals will jump to about £17m and £5.5m extra a year for the top and bottom clubs respectively.

Moreover, if, as looks likely, games in European club competition are to be broadcast on a PPV basis, the most successful clubs could be earning even more than that from PPV television by the turn of the century.

However, forecasts of what clubs will earn from future broadcasting deals could soon become irrelevant if the courts intervene to rewrite the rules on television rights ownership. The long-standing system whereby football broadcasting rights are owned and sold by the football league organisations on behalf of their member-clubs is now under legal challenge throughout Europe.

In the Netherlands last year, the Feyenoord club took the Dutch league to court over the sale of television rights to its and other clubs' games to a new broadcaster. Although the court did not decide the issue outright, it favoured the club's ownership of the rights to its home games, and the Dutch league's new television deal soon collapsed.

In Spain, two big clubs - Barcelona and Real Madrid - are currently challenging the right of the league to sell their games on a collective basis to the terrestrial broadcaster, and for a good reason: they had already sold the same rights to a cable television company, and the two clubs are now looking to the courts to settle the issue.

Meanwhile, in Britain, the Restrictive Practices Court

has been asked by the Office of Fair Trading (OFT) to investigate Sky Television's new deal with the Premier League. The OFT believes the league acted as a cartel, and wants it to explain to the court why restrictions preventing the clubs from negotiating their own broadcasting deals are in football's and the public's interest.

At the same time, the European Commission is keeping a close eye on the issue of television rights ownership. Mr. Stephen Hornsby, a specialist in competition law in sport and the media, says football should expect the commission to take action.

He says: "It will be looking to make a decision as to who should be able to exploit the broadcasting rights. 'My own view is that the individual clubs should be able to sell their own home games.'"

Mr. Hornsby believes the Restrictive Practices Court may come to a similar conclusion about the Premier League's new contract with Sky, although most experts believe some sort of compromise will emerge, allowing the broadcasters to buy the rights from collectively-organised leagues and yet also giving the clubs greater freedom to negotiate individual deals in the PPV arena and in the sale of European games.

Whatever the result of the court cases and legal inquiries, the longer-term trend appears to signal a shift in television rights ownership away from the leagues to the clubs, which can only be to the benefit of the big clubs. However, football and the broadcasters will have to ensure that the smaller clubs are not cut adrift financially in the broadcasting rights revolution.

As for the television companies, their power appears to be waning. It is possible to conceive of a future in which Manchester United operates its own broadcasting division, which produces coverage of all its home games and sells it to the highest broadcasting bidder. As other sectors of the leisure industry - notably film and television - have discovered, content is king. And in football, it is becoming clear that the clubs own the content.

STOCK MARKET • by Patrick Harverson

Maturity develops in share trading

Like any relationship, the stock market's love affair with football has included its ups and downs.

There was an infatuation with the game, when investors rushed to participate in football's profits boom and share prices soared to unsustainable levels.

Then there was disillusionment when investors realised the boom had been overhyped and that only a few clubs were consistently profitable. Amid the recognition that growth prospects were nothing like as exciting as had been hoped, share prices fell sharply.

Now, the relationship is reaching a more mature stage. There is an acceptance that while football has its flaws, the big clubs offer secure long-term growth potential, the medium-sized clubs remain unpredictable because they will be largely footballing performance-led, and the smaller clubs represent purely speculative plays for the brave-hearted investor.

This reassessment has allowed share prices to settle into a more manageable trading range, although a handful remain susceptible to the sudden shifts in sentiment prompted by setbacks

NRI football clubs index



Club	Price at 17/06 or last (pence)	Price at 25/4/97 (pence)	Change Market cap (%)	Change Market cap (£m)
Chelsea	1,000.0	2,000.0	+100.0	1,000.0
Manchester Utd	100.0	600.0	+500.0	490.0
Tottenham Hotspur	40.0	100.0	+150.0	105.0
Southampton Leisure	47.0	94.0	+100.0	9.4
Chelsea Village	30.0	110.0	+266.7	76.0
Millwall	2.25	4.0	+77.8	14.0
Leeds United	20.0	20.0	0.0	0.0
Preston North End	400.0	550.0	+37.5	11.0
Sheffield Utd	10.0	10.0	0.0	0.0
Newcastle Utd	135.0	125.0	-7.4	-10.0
Birmingham City	30.0	40.0	+33.3	3.0
Leeds Road (OPR)	72.0	65.0	-9.7	-2.0
Sheff Wed	50.0	40.0	-20.0	-2.0
Charlton Athletic	80.0	57.5	-28.1	-12.5
West Bromwich Albion	25,000.0	20,000.0	-20.0	-5,000.0

Source: NRI Football Clubs Index. Prices as at 17/06 or last (pence). Market cap as at 25/4/97. Figures are in millions of pounds.

and triumphs in football's end-of-season relegation and promotion battles.

However, the scars of this year's sell-off have not fully healed, and investors are sceptical of clubs that make promises that may prove difficult to fulfil.

In particular, shares in clubs such as Newcastle United, Southampton, Birmingham City and Charlton Athletic may languish if the

growth prospects of the businesses rely on long-term stadium construction plans or hopes of promotion to higher divisions.

Yet, despite concerns about individual clubs, the sector will almost certainly continue to grow. More clubs, such as Leicester City and Nottingham Forest, are planning flotations, while some even bigger names, wait in the wings.

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Manchester United PLC
£27.5m acquisition of United Trading Estate and stadium extension, April 1995. Advised by Henry Ansbacher & Co. Limited.

Tottenham Hotspur plc
One-for-four rights issue to raise \$11.2m, April 1996. Underwritten by Henry Ansbacher & Co. Limited.

Southampton Leisure Holdings PLC
Admission to the Official List, January 1997. Sponsored by Henry Ansbacher & Co. Limited.

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THE TRANSFER MARKET • by Jimmy Burns

Goalposts are moved by Europe's Bosman ruling

Players' freedom is increased, but some clubs fear threat of new cash pressures

The announcement last July that Newcastle United had acquired England star striker Alan Shearer for £15m produced widespread celebration by fans and much talk about the rise of players' power, but it also instilled a new note of alarm in the ongoing debate about the game's financial future.

The deal smashed the world football transfer fee record, confirming that English football was catching up with other branches of the entertainment industry and professional sports overseas, where the top players have long commanded superstar earnings.

By buying Shearer Newcastle was taking a big gamble, having to earn a return over the next five years on the total £22.5m investment – the transfer fee plus an estimated annual salary of £1.5m.

But apart from raising questions about the club's finances, the deal focused fresh attention on a transfer business that had been revolutionised as a result of the landmark "Bosman" ruling at the European Court of Justice.

Under the ruling, reached in December 1995, out-of-contract players worldwide have been given much greater freedom to move from one country to another within the EU without a transfer fee. The court also abolished the rule whereby football clubs could only have two foreign nationals in their team.

The immediate impact of Bosman has been the influx of foreigners, bringing a fresh dynamism to the national game, and with it a shift in the cost of players, away from transfer fees and towards higher wages.

Those who believe that the

football industry has dangerously underestimated the financial impact of the Bosman ruling include Mr Alan Sugar, the chairman of Tottenham Hotspur, who owns 40 per cent of the London club.

"Bosman could turn out to be the biggest single disaster for football in the last 20 to 30 years," he said. "We have seen an increase in players demanding higher salaries and people prepared to pay them. But the wrong mathematical calculations are being made and the effects in the longer term are going to include the bankruptcy of some of the bigger clubs."

Last year Tottenham cut its squad value to £10.2m to comply with Bosman, hoping that by adopting prudent player valuations it would avoid any holes emerging in the balance sheet in the longer term.

So far few major UK clubs have been prepared to follow Tottenham's lead, gambling on offsetting costs through success on the football field and increased merchandising and sponsorship deals.

But Manchester United provides an example of how changes in the transfer system have been a mixed blessing in financial terms, with much of the money saved on transfer fees going in increased player wages. The club's renegotiation of nine contracts and signing of five new players has added almost £7m to the annual wage bill.

Another area of concern arising out of the Bosman ruling has been the negative effect it might have on youth development, the formation of future national squads, and the financial stability of clubs outside the Premiership.

In the immediate aftermath of the ruling, organisations such as the Football League, the Football Association, and the Professional Footballers' Association took comfort in the fact that it did not affect domestic transfers.

However, legal experts such as Mr Richard Alderson at Edge & Ellison warned that the ruling contained sufficient "legal encouragement" to those who wished to see it extended to the English domestic game.

Those encouraged by it included Vinnie Jones, the controversial Wimbledon player who earlier this month threatened to sue his club and the Premier League for not allowing him to freely transfer after his contract expired at the end of the season.

The move by Jones was strongly criticised by Mr Gordon Taylor, chief execu-



Alan Sugar: 'mathematical calculations are wrong'

tive of the PFA, as an act of "disloyalty" to other players whose future stands to be more negatively affected by the freeing up of domestic transfers.

It is a view shared by Mr Chris Hull, spokesman for the Football League, who points out that the annual £25m generated for the lower division by transfer fees is a "very significant and vital lifeline for the smaller clubs", without which their existence is threatened.

Nevertheless, English football organisations have reluctantly accepted that the Bosman ruling is irreversible and that the game must accommodate

in the best way it can.

As Mr Taylor puts it: "We are looking for ways in which we can refine our domestic system without dismantling the development of youth."

In practice, this has meant an ongoing dialogue with European football's governing body, UEFA, and the formation of a domestic working committee capable of reconciling the demands of the English League with the realities of the post-Bosman era.

As a result, within the next two years, English football is likely to see further changes to its transfer system. Under proposals already virtually agreed by the FA, the Football League and the PFA, a young player will be signed up on training contracts until the age of 21. If he leaves after that, compensation will be paid to the selling club. Freedom of transfer would extend to all players at and after the age of 24.

In practice, several of the bigger English clubs, such as Manchester United, have already anticipated an extension of the Bosman ruling, safeguarding their financial interests by placing their players on longer-term contracts.

Just how many major clubs will be prepared and able to continue to pay huge fees in order to secure star players remains an open question. However, on the assumption of a continuing rise in TV, sponsorship and merchandising revenue, it is unlikely that the Shearer contract will be the last of its kind. As long as football remains an increasingly popular sport, and TV revenues keep coming in, the transfer market should go higher in the seasons ahead.

As sports lawyer Mr Richard Alderson puts it: "If you're a club and you want a superstar, you're going to borrow, beg or steal to get him, as long as you're convinced he's going to be your salvation."

PROFILE Irving Scholar

Mr Irving Scholar, one of the new owners of Nottingham Forest Football Club, is that unhappy mixture: a revolutionary who is also a sensitive man.

The Tottenham Hotspur fan was an era ahead of the rest of football when he led a takeover of his beloved London club in 1982. In those days, football clubs were sleepy businesses, mostly owned by wealthy patricians.

Mr Scholar, a multi-millionaire property developer, was tougher: during the takeover battle for Spurs he wrote to all female shareholders asking them to sell, betting that they would have little interest in stakes generally inherited from their fathers.

He floated Tottenham on the stock market, where no UK football club had gone before, and then tried to use the Spurs brand name to sell clothing and other goods.

Today, almost every big British club is following his lead – with modifications... for Mr Scholar's early revolution ended in disaster.

Like many companies of the era, his Spurs were seen to have diversified too far. It became such an extended leisure group that at one point it even applied for a kosher licence to cater at Jewish functions.

The leisure businesses plunged Tottenham into debt at the end of the 1980s. Mr Scholar then made a secret deal to sell a stake in the club to Mr Robert Maxwell, the media tycoon. He was censured and resigned as a director, but initially clung on as the football club chairman.

After one too many fan chant of "Scholar out!" he quit that post in 1991. He has spent most of the time since in his Monaco tax haven, but he still appears to remember many of the press attacks on him by heart.

So why has he returned to English football, to a club where the fans distrust him as a Tottenham supporter and the press dredges up his past?

Roots now put down in Forest



Irving Scholar: Many English clubs are now following his lead

One reason is that he is a live wire. Mr Scholar cannot stop talking, and is constantly coming up with ideas. He feels that since he started today's revolution in football finance, he should be in England now to spread his expertise.

Also, he thinks he can make money out of Forest. A bizarre takeover battle for the club, with bidding groups constantly dropping out or re-forming, ended with Mr Scholar's consortium as the only bidder left standing.

Together with Mr Nigel Wray, property developer and owner of Saracens rugby club, and Mr Phil Soar, a Nottingham journalist, Mr Scholar paid £19m for Forest.

The genius of the offer is that the money goes straight into the club. Most of the shareholders received no cash but will take shares when Forest floats on the stock market. Mr Scholar feels that he has bought a club and made an investment with the same sum of money.

Yet once again he is seeing his grand plan unravel. Forest, in danger of relegation from the Premiership when he bought the club in February, is now in last place and appears certain to go down. That would hit television income and could reduce total revenues by about £5m a year. Mr Scholar believes his investment will pay off even if Forest is relegated. Clearly, however, he would welcome a last-ditch miracle.

A man of ideas, a success outside football, yet apparently doomed to opposition, Mr Scholar must be granted one thing even by his enemies. He loves the game. He took no salary for his work at Spurs, and many of the club's fans today find themselves pining after him.

Mr Scholar signed Paul Gascoigne, Gary Lineker and Chris Waddle, while his successor, Mr Alan Sugar, no natural fan, appears keener on turning a profit than challenging for trophies.

Perhaps Mr Scholar loves football and great footballers too much to make money out of the game. Famously, he made loans to Spurs players which he never expected to be repaid. And Mr Alex Fynn recounts in *Dream On*, his book about Spurs, a telling meeting 12 years ago between Mr Scholar and Mr Osvaldo Ardiles.

Mr Ardiles, the club's great Argentine midfielder of the era, had come to ask Mr Scholar for a one-year contract worth £75,000. The chairman did not respond. Mr Ardiles immediately climbed down to £70,000. Mr Scholar told him to get out.

"You think about it, yes?", asked Mr Ardiles hopefully.

"No I won't!" shouted Mr Scholar. "You can have £80,000 and a two-year contract. Now get out!"

Dream On. Alex Fynn and H. Davidson. Simon and Schuster, London, £14.99

Simon Kuper

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COMMODITIES AND AGRICULTURE

Chilean copper mine workers threaten strike

By Imogen Mark in Santiago

Workers at Quebrada Blanca, a copper mine in northern Chile, are to go on strike from Wednesday morning unless they receive a substantially improved pay offer. If it goes ahead, the stoppage is expected to affect most production at the mine, which produces 6,000 tonnes a month of high-grade copper cathodes.

For the union, which represents virtually all the mine's 363 workers, Mr Nelson Fuentes said: "We and the management are a long way apart. We are asking for an 18 per cent real rise on our wage, and the company is offering an average of between 0.6 and 1 per cent. Obviously, our position is not absolutely rigid, but the company has to come up with something better."

According to Mr Fuentes, working conditions at Quebrada Blanca are an important factor behind the wage demand. The mine is situated 4,400m above sea level in the Atacama desert, the driest in the world. The combination of altitude and lack of humidity affects the health of workers, giving most of them permanent headaches and frequent nose bleeds, Mr Fuentes

said. The altitude reduces appetite, and also makes it hard to sleep properly, so workers feel constantly tired. As a result, there is a high turnover of workers who leave for health reasons, the union says, but there is no system of compensation. A further grievance is the conditions in which they take their lunch-break - sandwiches eaten

on the job in a dusty or acid-filled atmosphere. Sulphuric acid is sprayed on ground-up copper-bearing rock to leach out the mineral and produce the cathodes. Quebrada management said yesterday that it would not comment on the strike decision until it had been informed officially by the union. Meanwhile, the 368 workers on strike at Escondida, the world's

biggest copper mine, are now into the 11th day of their stoppage. The mine's management claims that output, at 800,000 tonnes a year, has been reduced by about 15 per cent. The union leadership was in Santiago yesterday seeking an interview with President Eduardo Frei to ask him to intervene in the dispute. They are seeking a 5 per cent real increase.

Further rise in zinc use forecast

By Kenneth Gooding, Mining Correspondent

Zinc consumption, already at record levels, is to rise sharply again this year and be well in excess of available supply, according to the International Lead & Zinc Study Group. The group, which counts 30 countries among its members, forecasts world zinc consumption will rise 3.5 per cent from its 1996 level to 7.72m tonnes, helped by a 4.1 per cent increase in demand from western markets, to 6.45m tonnes. Global refined zinc output this year is forecast at 7.6m tonnes, up 3.6 per cent, with the western world total likely to rise 2.3 per cent to 5.66m tonnes.

The study group suggests that imports of zinc by the west from eastern countries will be higher than in 1996 but "western world demand is forecast to continue well in excess of available supply, with a further draw-down in reported stocks". China will reinforce its position as the world's biggest zinc producer with an increase of 71,000 tonnes in output to 1.15m tonnes, the study group says.

Zinc's main uses are in coatings to protect iron and steel from corrosion, alloys for casting and as an element in brasses. Other uses include zinc sheet for roofing and cladding buildings and zinc oxide for tyres.

Zinc prices averaged \$1,036 a tonne last year, well below the peak of \$2,138 reached in 1989. Analysts Ms Amy Gassman and Mr Alexander Robinson are forecasting in Goldman Sachs's latest Base Metals Outlook that zinc will average \$1,145 a tonne this year and \$1,235 in 1998. Fleming's Global Mining Group is even more bullish, looking for \$1,322 a tonne this year and \$1,653 in 1998.

Cash copper Producers close in on Alberta's oil

Modern technology has made viable the extraction of bitumen from sand

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

The premium for copper for immediate delivery on the London Metal Exchange dropped dramatically yesterday as a wave of lending deluged the market. Lending is when metal is delivered to the market on the understanding that it will be returned to the seller at an agreed future date.

Mr Robin Bhar, analyst at Brandeis (Brokers), a London subsidiary, said the collapse of the premium had wrong-footed traders. "This was the opposite of what was expected."

The premium for cash copper compared with metal for delivery in three months, which soared to \$200 a tonne on Friday, narrowed to \$87 at one stage before ending the day at \$100. But analysts suggested the vicious technical squeeze that has gripped the copper market for months was not over.

"There is more upside left in copper," said Mr Jim Lennon, at Macquarie Equities. "Fundamental news continues to be bullish, with labour talks at the 180,000 tonnes a year Chuco copper mine in the US ending without a deal and workers at the 70,000 tonnes a year Quebrada Blanca mine in Chile announcing they will strike."

"With stocks extremely low, any supply disruption has the potential to have a dramatic impact on prices. The balance of risk for copper prices remains very much on the upside."

Although copper was the main focus of attention on the LME, aluminium prices continued their recent recovery. Metal for delivery in three months ended the day up \$29 a tonne, or nearly 2 per cent, at \$1,628.

Precious metals prices fell, led by gold which closed in London down \$2.40 a troy ounce from Friday's close. Some traders said gold's fall was options-related, and Mr Grant Smith, analyst at MCB, the investment bank, said Russia had been selling at any price in the spot market for the past two weeks.

In London silver closed 7 cents down at \$4.66 an ounce, platinum lost \$6 an ounce to close at \$373.50 and palladium dropped \$2.55 an ounce to \$157.25. Oil prices were generally steady, with little news to feed the markets direction. Brent Blend for June delivery was quoted at \$19.29 a barrel in late London trading, two cents up on Friday's close.

Continuing unrest in Nigeria's oil-producing Rivers state, which had influenced prices last week, appeared to have little impact yesterday.

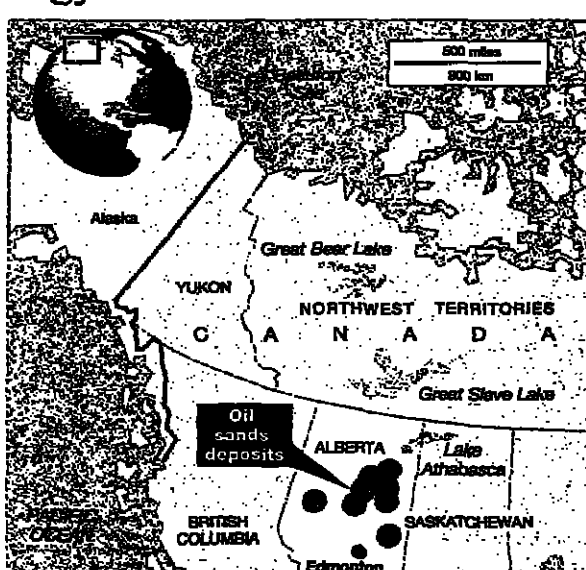
Petroleum producers are moving to exploit the potential of western Canada's heavy oil deposits, considered the last frontier of the country's energy industry. New technology and streamlined fiscal arrangements are drawing producers to the oil sands in northern Alberta, long considered too costly to develop.

Mobil Oil Canada, a subsidiary of the US producer, is the latest company to announce plans to invest C\$1bn (US\$716m) to build a plant to extract oil from the region's bituminous sand. Last month Shell Canada, subsidiary of Royal Dutch/Shell, proposed to invest an equal amount to build facilities in the area.

Mobil expects by 2003 to begin producing 100,000 b/d of bitumen, a heavy syrup that must be refined to produce synthetic crude oil. Shell plans to produce 120,000 b/d starting in 2002.

Both companies have said they will pipe their output south for refining at separate facilities. The investment proposals, which must pass feasibility studies and regulatory approval, reflect a growing belief in the region's producers to the heavy oil deposits in Alberta's Athabasca region.

Imperial Oil, Canada's largest oil producer and Exxon's Canadian subsidiary, is awaiting regulatory approval for a C\$440m



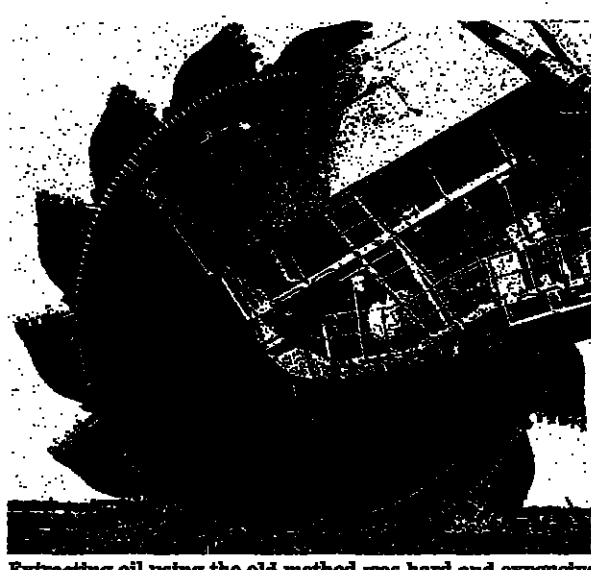
Expanding its heavy oil extraction operations in the province.

Suncor and Syncrude, a consortium of 10 companies, last year announced plans to increase their oil sands production. Suncor intends to invest C\$1bn in northern Alberta during the next three years, while Syncrude expects to spend C\$2bn over five years.

Syncrude and Suncor have operated in the Athabasca region for 20 years, but the latest round of planned investment, totalling C\$7.6bn over the next decade by large and small Canadian groups, will boost Alberta's importance as an oil sup-

plier. New technology, simplified fiscal arrangements, an increasing US appetite for heavy crude and a proliferation of pipelines to the US market have fuelled the growing interest in the region.

More important, Canadian government data indicate that the nation's proven reserves of conventional crude fell from 7.85bn barrels in 1976 to 5.01bn barrels in 1995. At present production levels, Canada will deplete its proven conventional reserves in less than 10 years, says Mr Ian Doig, who publishes a Calgary-based energy newsletter.



Extracting oil using the old method was hard and expensive.

"Conventional oil is declining. It's getting more difficult to find, particularly in large quantities," says Mr Neil Camarata, Shell's vice-president in charge of oil sands.

The Athabasca oil sands are believed to contain enough bitumen to produce more than 200bn barrels of heavy oil, of which about 25bn barrels can be extracted with mining techniques. The rest could be extracted with injection technology.

The drive to exploit the oil sands is not without potential difficulties. A significant drop in oil prices could quickly stall the projects.

Ownership of the proposed 300-mile pipeline has yet to be worked out. And environmentalists could oppose development in the Athabasca region on the grounds that heavy oil production generates greenhouse gases such as carbon dioxide.

The region, however, has too much potential to ignore. Oil sands production currently amounts to 22 per cent of Canadian petroleum production, but the region could eventually supply more than 50 per cent of the nation's output and become an important supply basin for the US market.

Scott Morrison

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

Close 1602.03 1607.28
Previous 1599.5-70.5 1598.9
High/Low 1602/1605
AM Official 1601.5-50.2
Kerb close 1606-06.5
Kerb open 1628.5-28.0
Open int. 99,567
Total daily turnover 99,567

ALUMINIUM ALLOY (\$ per tonne)

Close 1475-80 1505-07
Previous 1450-60 1480-85
High/Low 1520/1505
AM Official 1475-77 1505-07
Kerb close 1450-60 1505-10
Open int. 5,662
Total daily turnover 1,106

LEAD (\$ per tonne)

Close 619-20 625-30
Previous 619-20 625-30
High/Low 619/628
AM Official 626-26.5 626-36.5
Kerb close 627-28
Open int. 35,726
Total daily turnover 6,943

NICKEL (\$ per tonne)

Close 7335-45 7450-60
Previous 7335-35 7435-45
High/Low 7540/7420
AM Official 7450-60 7450-60
Kerb close 7420-30 7440-50
Open int. 50,380
Total daily turnover 15,852

TIN (\$ per tonne)

Close 5685-95 5730-40
Previous 5690-700 5740-45
High/Low 5770/5715
AM Official 5685-95 5725-30
Kerb close 5715-20
Open int. 16,637
Total daily turnover 3,149

ZINC, special high grade (\$ per tonne)

Close 1244-45 1266-65
Previous 1247-5 1269-71
High/Low 1278/1265
AM Official 1247-48 1270-75
Kerb close 1267-68
Open int. 87,721
Total daily turnover 10,844

COPPER, grade A (\$ per tonne)

Close 2485-87 2565-66
Previous 2561-3.5 2575-3
High/Low 2407/2552
AM Official 2520-25 2590-32
Kerb close 2556-57
Open int. 135,093
Total daily turnover 67,780

LME AM Official C/S rates 1.0240

LME Clearing C/S rates 1.0237

Sat 1625.1 rate 1.0216 1611.6 rate 1.0191 1618.1 rate 1.0213 1618.8 rate 1.0213

HIGH GRADE COPPER (COMEX)

Sett. Day's price change High Low Vol Int

Apr 111.50 -3.30 115.70 110.50 900 528
May 111.50 -1.10 113.80 110.70 6,031 10,504
Jun 110.70 -0.80 111.60 109.90 327 2,138
Jul 110.20 -0.75 111.55 109.10 5,739 18,182
Aug 108.50 -0.45 - - 69 1,031
Sep 107.20 -0.40 107.70 106.10 891 4,974
Oct 124.13 48,888

PRECIOUS METALS

LONDON GOLD MARKET

(Prices supplied by N.M. Rothschild)

Gold (Troy oz) \$ price £ equiv SFR equiv

Close 338.90-340.40 1269-71

Opening 341.25 210,233 503,003

Aluminium 341.25 210,233 503,003

Strontium 341.25 210,233 503,003

Day's High 341.70-342.00

Day's Low 339.00-339.40

Precious metals 342.00-342.70

LONDON MEAN GOLD LENDING RATES (% US\$)

1 month -4.67 6 months -4.65

2 months -4.65 12 months -4.62

3 months -4.65

Silver 338.90-340.40 1269-71

3 months 338.90-340.40 1269-71

6 months 338.90-340.40 1269-71

1 year 338.90-340.40 1269-71

Gold Coins 341.25 210,233 503,003

Maple Leaf 341.25 210,233 503,003

New Sovereign 80-83 49-51

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Apr 338.90 -3.30 342.00 316 273

May 341.25 -2.5 343.7 340.5 12,328 74,716

Jun 344.0 -2.5 346.0 343.2 18,182 40,420

Jul 346.7 -2.5 348.3 345.8 37 6,280

Aug 349.6 -2.4 351.0 348.8 32 6,515

Sep 352.1 16,892

Total 12,813 166,892

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Jul 372.5 -5.2 375.8 371.5 2,378 13,141

Aug 373.6 -5.3 375.0 373.5 278 2,730

Sep 373.8 -5.3 380.5 380.5 2 1,181

Oct 373.3 -5.3 379.5 379.5 1 7

Nov 373.8 -5.3 379.5 379.5 1 7

Total 2,889 17,881

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Jun 156.30 -2.90 157.50 155.50 1,116 6,753

Jul 155.82 -1.50 156.00 155.00 2 2,687

Sep 155.55 -2.90 - - 325

Total 1,281 9,429

SILVER COMEX (5,000 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Apr 461.0 -10.9 - - 2 1

May 461.0 -11.0 471.5 457.0 10,439 35,328

Jun 458.8 -11.0 470.0 453.0 6,283 45,988

Jul 470.7 -11.0 480.5 468.5 330 4,770

Aug 478.1 -11.0 488.0 475.0 66 6,546

Sep 480.7 -11.0 - - 17

Total 15,194 85,119

ENERGY

CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

Sett. Day's price change High Low Vol Int

Jun 19.90 -0.09 20.03 19.83 26,559 100A

Jul 19.92 -0.09 20.02 19.85 15,527 51,681

Aug 19.90 -0.08 19.98 19.89 4,741 28,337

Sep 19.87 -0.07 19.95 19.85 1,203 1,658

Oct 19.85 -0.07 19.90 19.85 534 15,161

Nov 19.85 -0.05 19.90 19.85 381 13,171

Total 67,452 397,941

CRUDE OIL ICE (\$/barrel)

Sett. Day's price change High Low Vol Int

Jun 18.30 -0.03 18.34 18.22 2,635 62,227

Jul 18.30 -0.04 18.41 18.27 4,356 50,422

Aug 18.50 -0.07 18.55 18.38 470 16,282

Sep 18.58 -0.08 18.58 18.48 1,711 6,111

Oct 18.62 -0.10 18.62 18.52 18 1,802

Nov 19.00 -0.08 - - 5,171

Total 15,160 167,698

HEATING OIL NYMEX (42,000 US gal; \$/US gal)

Sett. Day's price change High Low Vol Int

May 55.90 -0.60 56.70 55.89 9,379 14,401

Jun 53.85 -0.02 54.05 53.45 10,360 35,725

Jul 53.85 -0.02 54.05 53.45 10,360 35,725

Aug 54.45 -0.12 54.55 54.15 1,286 13,629

Sep 54.80 -0.22 55.00 54.50 114 7,846

Oct 55.70 -0.03 55.95 55.70 261 7,419

Total 27,282 143,141

GAS OIL ICE (\$/barrel)

Sett. Day's price change High Low Vol Int

May 165.75 -0.25 166.00 165.00 2,889 16,857

Jun 165.75 -0.25 166.00 165.00 2,889 16,857

Jul 165.75 -0.25 166.00 165.00 2,889 16,857

Aug 165.75 -0.25 166.00 165.00 2,889 16,857

Sep 165.75 -0.25 166.00 165.00 2,889 16,857

Oct 165.75 -0.25 166.00 165.00 2,889 16,857

Nov 165.75 -0.25 166.00 165.00 2,889 16,857

Total 2,889 16,857

NATURAL GAS NYMEX (10,000 Btu; \$/Btu)

Sett. Day's price change High Low Vol Int

Jun 2.085 -0.041 2.110 2.040 14,727 32,390

Jul 2.130 -0.025 2.155 2.115 5,342 22,242

Aug 2.140 -0.020 2.165 2.120 2,527 12,687

Sep 2.150 -0.018 2.170 2.110 1,812 15,198

Oct 2.150 - - 2.255 2,250 53 7,148

Total 26,185 85,405

GRAINS AND OIL SEEDS

WHEAT LIFE (\$ per tonne)

Sett. Day's price change High Low Vol Int

May 92.35 -0.40 92.50 92.00 132 683

Jun 92.50 -0.50 92.75 92.00 338 1,388

Italy

invest
fund
liquidity

G7 fails to stem dollar's tide

MARKETS REPORT

By Simon Kuper

The dollar edged higher yesterday as traders decided the Group of Seven's communiqué on Sunday was too weak to block the US currency's rise.

The dollar rose strongly after the Washington statement, although it later shed some gains. Mr Carl Weinberg, chief economist at High Frequency Economics in the US, said: "The market's short term reaction was to buy, buy, buy, and then people took their profits." Other currency strategists added that dealers had grown nervous that the G7 might later intervene in the market against the dollar.

The US currency closed in London at DM1.728 to the German currency and ¥126.6 to the yen, half a penny and half a yen above Friday's closing levels.

On exchange rates, the

G7's statement said "excess volatility and significant deviations from fundamentals are undesirable". It emphasised the importance of avoiding exchange rates that could lead to the re-emergence of large external imbalances. But there was no threat of intervention, and the statement differed little from that issued after the last G7 meeting in Berlin in February. The dollar has risen since Berlin.

Late on Sunday and yesterday, Japanese and German officials made more aggressive comments. Mr Hans Tietmeyer, Bundesbank president, said the US was "interested in a strong dollar but not a stronger one".

Mr Hiroshi Mitsuoka,

President of the Bank of Japan

said: "We are not in a position to

intervene in the market at the

moment."

Mr Tietmeyer and Mr Mitsuoka

also said that the dollar was

not overvalued.

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Japan's finance minister, said yesterday that the markets should clearly understand what the G7 intended. "The effects of the statement will emerge sooner or later," he said. Traders read this as a threat that Japan may yet sell dollars in the market.

However, Mr Eddie George, governor of the Bank of England, when asked whether Japan had pushed for joint intervention against a further dollar rise, said: "There was no pressure for that sort of thing." Mr Robert Rubin, US treasury secretary, made no comments about currencies and instead urged Japan to stimulate domestic demand. Mr Michael Burke, senior economist at Citibank in London, noted that UK, French and US officials appeared more willing than Mr Tietmeyer and Mr Mitsuoka to live with a further dollar rise. Joint intervention was unlikely, he said. The rising dollar helped

the pound, the lira and the

French franc gain against the

D-Mark.

Mr Burke said: "I think

the dollar probably goes up

further." The statement was

"a green light for dollar pur-

chases," he said.

So why did the dollar rise

only modestly yesterday? Mr

Avinash Persaud, currency

strategist at J.P. Morgan,

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exchange rate levels, there is

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to rise much higher. "If

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intervention, why hold a

long dollar position when

the dollar isn't going to go

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here?" he asked, adding:

"We will see the dollar creep

higher, but it's going to be a

gradual process."

Mr Paul Chertkow, head of

UBS in London, warned that

the G7 might be setting a

"bull trap" for the market.

The group's aim, he

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a tame statement to lure

traders into buying dollars.

Once most dealers were long

on dollars, the G7 would

then intervene against the

currency. As all demand for

dollars would have already

been satiated by then, there

would be no dollar buyers

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But some strategists said

strong economic data expected

from the US this week

could boost the dollar.

■ The Canadian dollar

barely softened after Mr

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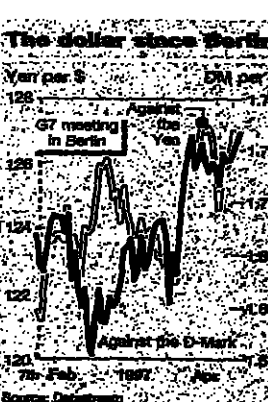
prime minister, on Sunday

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POUND SPOT FORWARD AGAINST THE POUND

Apr 28		Closing mid-point	Change on close	Bid/offer spread	Day's high	Day's low	One month return	Three months return	S&P
Europe									
Australia	(Sch)	18.7344	+0.0049	281	426	18.9522	18.7261	18.9509	21
Belgium	(Sch)	57.9742	+0.0173	437	407	58.3130	57.7290	57.7462	21
Denmark	(Sch)	10.9789	+0.0295	745	403	10.7438	10.7503	10.6589	21
France	(Sch)	84.5801	+0.0023	299	383	84.890	84.228	-	-
Germany	(Sch)	11.8451	+0.0028	384	254	11.863	11.829	9.8339	21
Italy	(Sch)	2.8040	+0.0068	129	151	2.8286	2.8203	2.7973	21
Japan	(Sch)	444.942	+0.05	88	187	448.355	444.998	-	-
Netherlands	(Sch)	10.0042	+0.0002	322	541	10.055	10.0191	10.029	21
Norway	(Sch)	2.7763	3	2	2	2.777	2.777	2.777	21
Portugal	(Sch)	57.9742	+0.0173	437	407	58.3130	57.7290	57.7462	21
Spain	(Sch)	1.1557	+0.0104	541	573	1.1789	1.1510	1.1476	21
Sweden	(Sch)	11.8451	+0.0028	384	254	11.863	11.829	9.8339	21
Switzerland	(Sch)	251.140	+1.001	165	301	253.248	249.385	249.657	21
UK	(Sch)	298.432	+0.057	309	555	298.110	298.308	298.565	21
USA	(Sch)	12.8259	+0.0188	167	351	12.7931	12.8187	12.6098	14
Other	(Sch)	2.3963	+0.0043	805	275	2.4020	2.3950	2.3776	45
Asia									
South Africa	(Sch)	1.4382	+0.0016	374	300	1.4468	1.4374	1.436	14
South Korea	(Sch)	-	-	-	-	-	-	-	-
Other	(Sch)	-1.18948	-	-	-	-	-	-	-
Other									
Argentina	(Frac)	1.6232	+0.0007	227	235	1.6259	1.6211	-	-
Brazil	(Frac)	1.7283	+0.0005	246	259	1.7279	1.7288	-	-
Canada	(CS)	2.2708	+0.0033	696	715	2.2788	2.2685	2.2647	3.7
USA	(New Frac)	12.8573	+0.0567	409	486	12.8701	12.8198	-	-
Other	(Frac)	1.894	+0.0003	230	258	1.8926	1.8712	1.8927	27
Asia/Pacific/Middle East									
Australia	(AS)	2.8004	-0.01	792	815	2.8989	2.8077	2.8083	0.1
Hong Kong	(HKS)	12.5773	+0.0023	734	812	12.5988	12.5687	12.5788	0.4
Japan	(J)	4.0152	+0.0016	715	740	4.0159	4.0159	-	-
Malaysia	(MS)	5.5299	+0.0007	294	363	5.5419	5.5189	-	-
Japan	(Y)	205.482	+0.841	339	606	206.020	205.210	204.512	5.2
Malaysia	(M)	4.0752	+0.0001	734	770	4.0575	4.0749	-	-
New Zealand	(NZ)	1.894	+0.0003	230	258	1.8926	1.8712	1.8927	27
Philippines	(PF)	42.8042	+0.0003	496	568	42.8993	42.7468	-	-
Saudi Arabia	(S)	0.0886	+0.0011	690	902	0.0926	0.0827	-	-
Singapore	(S)	2.3458	+0.0008	496	490	2.3506	2.3436	-	-
South Africa	(SA)	1.4382	+0.0016	374	300	1.4468	1.4374	1.436	14
South Korea	(K)	1448.8	+0.017	628	249	1452.04	1446.29	-	-
Taiwan	(T)	44.9195	+0.0072	780	830	44.9690	44.9421	-	-
Thailand	(B)	42.3561	+0.0027	411	481	42.4710	42.3747	-	-

Source: Reuters Apr 28, 1994. Bid/offer spread is the quoted spread in the Forward Spot table shown only for the most liquid clearing places. For other clearing places, the bid/offer spread is estimated by currency. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. The bid/offer spread is the difference between the bid and offer prices. 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FT MANAGED FUNDS SERVICE

● ET Cynfine Unit Trust Prices are available over the telephone. Call the ET Cynfine Help Desk on 1-44 1711 873 4378 for more detail.

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MANAGED FUNDS NOTES

Prices are in percent and are based on the national average. The U.S. average is 100 percent. The average for the U.S. is 100 percent. The average for the U.S. is 100 percent.

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LONDON STOCK EXCHANGE

Election week begins with shares on the up

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

A return of confidence on Wall Street, coupled with a strong showing by gilts, helped the UK equity market gradually regain its composure yesterday.

But the market never looked comfortable until the last hour of trading when Wall Street moved into top gear, with the Dow Jones Industrial Average posting a 40-point rise ahead of some crucially important economic data.

By the close of trading, the FTSE 100 index had moved up to a day's high of 4,389.7, up 20

points. The index was said to be looking to break through the 4,400 level once again, if Wall Street maintained its composure.

There was no disguising the lack of interest across the rest of the stock market, however. The FTSE 250 index was always in negative territory, falling 7.4 at its worst on the day to reach 4,493.1, before rallying to end the session a net 4.3 lower at 4,488.2. Similarly, there was very little support for smaller capitalised stocks; the SmallCap index finished 3.5 down at 2,285.2.

Although Thursday's general election remained one of the day's biggest talking points, marketmakers said the welter of

press reports at the weekend suggesting a comfortable Labour victory played little or no part in the market's performance.

The only business generated in the market by the election stories was a sharp increase in betting on the outcome of the election by dealers across the City," said one trader.

He said the main focus of attention during the day was on Wall Street, which has to cope with news of consumer confidence and durable goods orders on Tuesday, first quarter gross domestic product, due on Wednesday, the purchasing managers' report on Thursday and - most importantly - the non-farm payroll

report for April, expected on Friday.

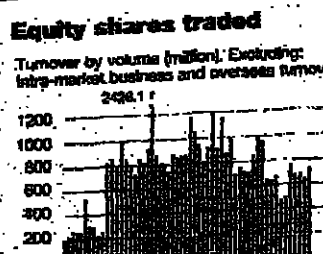
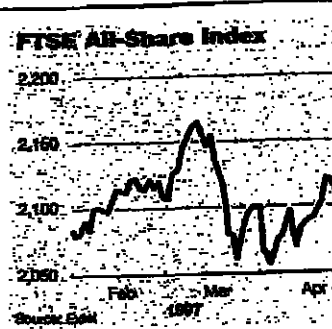
Observers said the week's data would provide crucial pointers to the outcome of the next Federal Reserve Open Market Committee meeting on May 20. Another increase in US interest rates is expected by some observers following the meeting.

Turnover at 6pm reached 673.3m shares, relatively high for a Monday, but that figure included 72m shares traded in two of the market's penny stocks, Dragon Oil and Mimmet, which attracted 54m and 18m shares respectively.

Financial stocks once more attracted heavy buying interest,

partly because of the recent successful flotation of Alliance & Leicester, the building society turned bank, but also because of growing enthusiasm about the forthcoming flotations of the Halifax and the Norwich Union. Banks and insurances occupied eight out of the top nine places in the FTSE 100 performance table.

Starling's move back over the 100 trade-weighted level, although it eventually finished below that mark, caused few problems to shares in the big exporters. However, dealers and analysts warned that a long list of annual meetings during the week could provide some shocks for the market.



FTSE All-Share Index

Equity shares traded

Indices and ratios

FTSE 100	4389.7	+20.0
FTSE 250	4488.2	-4.3
FTSE 350	2150.4	+7.4
FTSE All-Share	2188.2	+4.7
FTSE All-Share yield	3.61	3.62

FT 30

FT 30	2869.7	+7.7
FTSE Non-Fin p/e	18.24	18.25
FTSE 100 P/E Jun	4405	+12.0
10 yr Gilt yield	7.17	7.71
Long gilt/equity yield ratio	2.11	2.12

Best performing sectors

1 Banks: Retail	+1.8
2 Life Assurance	+1.2
3 Pharmaceuticals	+1.0
4 Telecommunications	+1.0
5 Insurance	+0.9

Worst performing sectors

1 Tobacco	-1.3
2 Engineering: Vehicles	-1.2
3 Paper: Pulp & Paper	-0.8
4 Textiles & Apparel	-0.8
5 Household Goods	-0.7

Banks trade at peak

By Peter John
and Joel Kibazo

The bank sector traded around its all-time relative high with more than a little extra help from the forthcoming Halifax flotation.

Although still a month away, the auction of Halifax shares was thrown into focus by news that the building society set a floor price for institutional investors of 415p apiece.

And, as the share price of Alliance & Leicester rises, in contrast to banking analysts' cautious attitude towards the company, the market is busily taking Halifax valuations. The current range is between 500p and 550p a share.

Furthermore, private A&L shareholders saw the share price run away from them and it is expected that Halifax members may be more wary of selling their entitlement.

It thus becomes increasingly likely that institutions will struggle to get hold of stock and will have to look elsewhere to maintain their weight in the sector.

Yesterday, four of the six best performers in the Footsie were banking stocks.

Lloyds TSB, which offers excellent exposure to the healthy housing market, was top dog with a gain of 19 to a

new closing peak of 576p. Barclays added 28 at 11.16p with continuing support from speculation that it will offload its BZW securities arm. There was speculation that J.P. Morgan might be interested.

Meanwhile, Royal Bank of Scotland lifted 13p to 57p and Bank of Scotland 7p to 360p. A&L added 5 at 559p.

It was a volatile debut for Cable & Wireless Communications, the merged UK cable television and telephone services provider.

The group's shares started trading yesterday afternoon, with dealing in the London market timed to coincide with the start of trading on the New York Stock Exchange.

The shares opened at 300p, and frantic buying in the first hour saw the stock touch a session peak of 309p. However, sellers emerged at the higher levels, prompting a retreat which saw the shares close half a penny lighter at 299p. Turnover was 7.3m.

The new company is valued at around £4.5bn but the limited size of CWC's free float of shares means the stock will not feature in the FTSE 100 index. Its traded shares constitute only 14.7 per cent of the group's total stock. The London Stock Exchange requires a free float of 25 per cent for inclusion in the FTSE 100.

Hambros was buffeted by legal activity surrounding the merchant bank's role as adviser in the failed £1.2bn bid for the Co-operative Wholesale Society.

In the morning, the shares

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British Biotech improved 2p to 247p after signing a three-year collaborative discovery research agreement with SynPhar Laboratories of Canada to design and synthesise potential new drugs.

Brent International slipped 4p to 86p. The industrial links and coatings company told shareholders at its annual meeting that, because of quiet market conditions, resulted in its imaging management business was trading at levels similar to the second half of last year and below levels achieved in early 1996.

Doubts about the strategy of Anglo-US engineering group LucasVarity continued to overhang the shares as the company confirmed another share buy-back. The shares gave up 6 to 183p, the day's worst performer in the FTSE 100.

Just before yesterday's

close, LucasVarity said it had purchased for cancellation another 2.5m of its ordinary shares from ABN Amro Hoare Govett Securities. The company paid 185p a share for the stock which represents approximately 0.2 per cent of LucasVarity's ordinary share capital.

Last week, the company bought 1m ordinary shares as part of a programme to repurchase around 3 per cent of its own stock for cancellation.

News of lower than expected figures from US aircraft manufacturer Boeing weakened British Aerospace. The shares fell 24 to £13.35p. One market specialist said: "It is a sentiment thing. BAE operates in some similar markets to Boeing."

BAE holds a 20 per cent stake in the Airbus consortium. Dealers also suggested there were nervousness in the market about BAE's annual meeting on Wednesday. Last week Vickers used its annual meeting to announce a profits warning, which cast a shadow over the engineering sector as a whole. A buy note boosted Vickers yesterday, with the shares closing 3p up at 210p.

Elsewhere, shares in BSM, the driving instruction group, went into reverse after the company issued a profits warning. The company said profits in the first half of this year could be about half of last year's level, due to regulation changes for driving tests.

The shares fell 38 or 26.7 per cent to 103p, the worst performer in the FTSE All-Share.

BAT shed 7 to 518p after a US tobacco ruling on Friday that tobacco could be regulated as a drug.

Premier Oil ended the day marginally firmer at 39p.

with support from Lehman Brothers. Lehman said the company had a moderate risk medium-term drilling programme, the most attractive valuation in the sector and a series of promising "crown jewel" international exploration projects.

Takeover news injected life into Quality Care Homes, the nursing home operator. The shares jumped 37 to 311p after the company said it was in talks that might lead to an offer for it.

Partners Holdings, a specialist stationery store group, made its market debut yesterday. The shares, placed at 150p, began trading at 182p and ended the day at 189p.

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FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFE) 25 p per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4384.0	4405.0	+11.0	4420.0	4379.0	7088	58781
Sep	4430.0	4450.0	+12.0	4470.0	4410.0	0	250

FTSE 250 INDEX FUTURES (LIFE) 10 p per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4310.0	4350.0	-5.0	4370.0	4290.0	0	4841

FTSE 100 INDEX OPTION (LIFE) 4384 10 p per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
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14	3.56	2.32	15.13	53.41	1192.14	Next	2,400	649	-
25	2.68	1.63	28.58	13.25	1377.89	Northern Foods	1,300	209	-
48	2.73	1.71	26.68	104.77	2373.99	Oranger	1,400	216	-
57	6.28	1.89	10.53	147.58	1147.88	Pearson	1,200	712	-
						P & O	2,000	582	-
						Pillsbury	2,500	112	-


姓名	性别	年龄	职业	住址	电话
王德胜	男	45	教师	本市和平路123号	12345678
李秀英	女	38	医生	本市文化路456号	87654321
张志强	男	52	工程师	本市建设路789号	98765432
刘小红	女	28	护士	本市健康路101号	11223344
陈大明	男	60	退休	本市幸福路202号	22334455
赵小芳	女	35	会计	本市繁荣路303号	33445566
孙伟光	男	48	司机	本市平安路404号	44556677
周丽娟	女	30	文员	本市和谐路505号	55667788
吴国强	男	55	农民	本市丰收路606号	66778899
郑晓燕	女	25	学生	本市希望路707号	77889900
徐建华	男	40	商人	本市致富路808号	88990011
黄美玲	女	33	歌手	本市艺术路909号	99001122
林永成	男	50	工人	本市劳动路1010号	10112233
宋小华	女	22	程序员	本市科技路1111号	11223344
马志远	男	42	记者	本市新闻路1212号	12132435
周淑芬	女	36	画家	本市创意路1313号	13142536
吴大伟	男	58	律师	本市正义路1414号	14152637
郑丽霞	女	29	设计师	本市时尚路1515号	15162738
徐国强	男	44	厨师	本市美食路1616号	16172839
黄小娟	女	31	舞蹈家	本市艺术路1717号	17182940
林永成	男	50	工人	本市劳动路1818号	18193041
宋小华	女	22	程序员	本市科技路1919号	19203142
马志远	男	42	记者	本市新闻路2020号	20213243
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吴大伟	男	58	律师	本市正义路2222号	22233445
郑丽霞	女	29	设计师	本市时尚路2323号	23243546
徐国强	男	44	厨师	本市美食路2424号	24253647
黄小娟	女	31	舞蹈家	本市艺术路2525号	25263748
林永成	男	50	工人	本市劳动路2626号	26273849
宋小华	女	22	程序员	本市科技路2727号	27283950
马志远	男	42	记者	本市新闻路2828号	28294051
周淑芬	女	36	画家	本市创意路2929号	29304152
吴大伟	男	58	律师	本市正义路3030号	30314253
郑丽霞	女	29	设计师	本市时尚路3131号	31324354
徐国强	男	44	厨师	本市美食路3232号	32334455
黄小娟	女	31	舞蹈家	本市艺术路3333号	33344556
林永成	男	50	工人	本市劳动路3434号	34354657
宋小华	女	22	程序员	本市科技路3535号	35364758
马志远	男	42	记者	本市新闻路3636号	36374859
周淑芬	女	36	画家	本市创意路3737号	37384960
吴大伟	男	58	律师	本市正义路3838号	38395061
郑丽霞	女	29	设计师	本市时尚路3939号	39405162
徐国强	男	44	厨师	本市美食路4040号	40415263
黄小娟	女	31	舞蹈家	本市艺术路4141号	41425364
林永成	男	50	工人	本市劳动路4242号	42435465
宋小华	女	22	程序员	本市科技路4343号	43445566
马志远	男	42	记者	本市新闻路4444号	44455667
周淑芬	女	36	画家	本市创意路4545号	45465768
吴大伟	男	58	律师	本市正义路4646号	46475869
郑丽霞	女	29	设计师	本市时尚路4747号	47485970
徐国强	男	44	厨师	本市美食路4848号	48496071
黄小娟	女	31	舞蹈家	本市艺术路4949号	49506172
林永成	男	50	工人	本市劳动路5050号	50516273
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郑丽霞	女	29	设计师	本市时尚路5555号	55566778
徐国强	男	44	厨师	本市美食路5656号	56576879
黄小娟	女	31	舞蹈家	本市艺术路5757号	57586980
林永成	男	50	工人	本市劳动路5858号	58597081
宋小华	女	22	程序员		

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FINANCIAL TIMES

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Austria (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
ATX	2,017.1	2,017.1	2,017.1	1,812.1
ATX 100	2,017.1	2,017.1	2,017.1	1,812.1

Belgium-Luxembourg (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
BELX	3,421.1	3,421.1	3,421.1	3,121.1
BELX 100	3,421.1	3,421.1	3,421.1	3,121.1

Denmark (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
CX	1,121.1	1,121.1	1,121.1	1,021.1
CX 100	1,121.1	1,121.1	1,121.1	1,021.1

Finland (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
HEX	1,121.1	1,121.1	1,121.1	1,021.1
HEX 100	1,121.1	1,121.1	1,121.1	1,021.1

France (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
CAC	3,421.1	3,421.1	3,421.1	3,121.1
CAC 100	3,421.1	3,421.1	3,421.1	3,121.1

Germany (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
DAX	3,421.1	3,421.1	3,421.1	3,121.1
DAX 100	3,421.1	3,421.1	3,421.1	3,121.1

Greece (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
ASE	1,121.1	1,121.1	1,121.1	1,021.1
ASE 100	1,121.1	1,121.1	1,121.1	1,021.1

Ireland (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
ISEQ	1,121.1	1,121.1	1,121.1	1,021.1
ISEQ 100	1,121.1	1,121.1	1,121.1	1,021.1

Italy (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
BIT	1,121.1	1,121.1	1,121.1	1,021.1
BIT 100	1,121.1	1,121.1	1,121.1	1,021.1

Japan (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
Nikkei	1,121.1	1,121.1	1,121.1	1,021.1
Nikkei 225	1,121.1	1,121.1	1,121.1	1,021.1

Korea (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
KOSPI	1,121.1	1,121.1	1,121.1	1,021.1
KOSPI 100	1,121.1	1,121.1	1,121.1	1,021.1

Netherlands (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
AEX	1,121.1	1,121.1	1,121.1	1,021.1
AEX 100	1,121.1	1,121.1	1,121.1	1,021.1

Norway (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
OSEX	1,121.1	1,121.1	1,121.1	1,021.1
OSEX 100	1,121.1	1,121.1	1,121.1	1,021.1

Portugal (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
BVL	1,121.1	1,121.1	1,121.1	1,021.1
BVL 100	1,121.1	1,121.1	1,121.1	1,021.1

Spain (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
IBEX	1,121.1	1,121.1	1,121.1	1,021.1
IBEX 35	1,121.1	1,121.1	1,121.1	1,021.1

Sweden (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
OMX	1,121.1	1,121.1	1,121.1	1,021.1
OMX 100	1,121.1	1,121.1	1,121.1	1,021.1

Switzerland (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
SIX	1,121.1	1,121.1	1,121.1	1,021.1
SIX 100	1,121.1	1,121.1	1,121.1	1,021.1

Taiwan (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
TSEI	1,121.1	1,121.1	1,121.1	1,021.1
TSEI 100	1,121.1	1,121.1	1,121.1	1,021.1

Thailand (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
SET	1,121.1	1,121.1	1,121.1	1,021.1
SET 100	1,121.1	1,121.1	1,121.1	1,021.1

Turkey (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
BIST	1,121.1	1,121.1	1,121.1	1,021.1
BIST 100	1,121.1	1,121.1	1,121.1	1,021.1

UK (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
FTSE	1,121.1	1,121.1	1,121.1	1,021.1
FTSE 100	1,121.1	1,121.1	1,121.1	1,021.1

USA (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
DOW	1,121.1	1,121.1	1,121.1	1,021.1
DOW 30	1,121.1	1,121.1	1,121.1	1,021.1

Zimbabwe (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
FTSE	1,121.1	1,121.1	1,121.1	1,021.1
FTSE 100	1,121.1	1,121.1	1,121.1	1,021.1

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changed about Rockwell
- our hallmark is still
technology leadership.

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ASIA

Australia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
ASX	1,121.1	1,121.1	1,121.1	1,021.1
ASX 100	1,121.1	1,121.1	1,121.1	1,021.1

Canada (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
TSE	1,121.1	1,121.1	1,121.1	1,021.1
TSE 300	1,121.1	1,121.1	1,121.1	1,021.1

China (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
SSE	1,121.1	1,121.1	1,121.1	1,021.1
SSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Hong Kong (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
HSI	1,121.1	1,121.1	1,121.1	1,021.1
HSI 100	1,121.1	1,121.1	1,121.1	1,021.1

India (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
NSE	1,121.1	1,121.1	1,121.1	1,021.1
NSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Indonesia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
IDX	1,121.1	1,121.1	1,121.1	1,021.1
IDX 100	1,121.1	1,121.1	1,121.1	1,021.1

Japan (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
Nikkei	1,121.1	1,121.1	1,121.1	1,021.1
Nikkei 225	1,121.1	1,121.1	1,121.1	1,021.1

Korea (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
KOSPI	1,121.1	1,121.1	1,121.1	1,021.1
KOSPI 100	1,121.1	1,121.1	1,121.1	1,021.1

Malaysia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
KLSE	1,121.1	1,121.1	1,121.1	1,021.1
KLSE 100	1,121.1	1,121.1	1,121.1	1,021.1

New Zealand (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
NZSE	1,121.1	1,121.1	1,121.1	1,021.1
NZSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Philippines (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
PSE	1,121.1	1,121.1	1,121.1	1,021.1
PSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Singapore (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
STSE	1,121.1	1,121.1	1,121.1	1,021.1
STSE 100	1,121.1	1,121.1	1,121.1	1,021.1

South Africa (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
JSE	1,121.1	1,121.1	1,121.1	1,021.1
JSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Taiwan (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
TSEI	1,121.1	1,121.1	1,121.1	1,021.1
TSEI 100	1,121.1	1,121.1	1,121.1	1,021.1

Thailand (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
SET	1,121.1	1,121.1	1,121.1	1,021.1
SET 100	1,121.1	1,121.1	1,121.1	1,021.1

Turkey (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
BIST	1,121.1	1,121.1	1,121.1	1,021.1
BIST 100	1,121.1	1,121.1	1,121.1	1,021.1

UK (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
FTSE	1,121.1	1,121.1	1,121.1	1,021.1
FTSE 100	1,121.1	1,121.1	1,121.1	1,021.1

PACIFIC

Australia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
ASX	1,121.1	1,121.1	1,121.1	1,021.1
ASX 100	1,121.1	1,121.1	1,121.1	1,021.1

Canada (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
TSE	1,121.1	1,121.1	1,121.1	1,021.1
TSE 300	1,121.1	1,121.1	1,121.1	1,021.1

China (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
SSE	1,121.1	1,121.1	1,121.1	1,021.1
SSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Hong Kong (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
HSI	1,121.1	1,121.1	1,121.1	1,021.1
HSI 100	1,121.1	1,121.1	1,121.1	1,021.1

India (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
NSE	1,121.1	1,121.1	1,121.1	1,021.1
NSE 100	1,121.1	1,121.1	1,121.1	1,021.1

Indonesia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
IDX	1,121.1	1,121.1	1,121.1	1,021.1
IDX 100	1,121.1	1,121.1	1,121.1	1,021.1

Japan (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
Nikkei	1,121.1	1,121.1	1,121.1	1,021.1
Nikkei 225	1,121.1	1,121.1	1,121.1	1,021.1

Korea (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
KOSPI	1,121.1	1,121.1	1,121.1	1,021.1
KOSPI 100	1,121.1	1,121.1	1,121.1	1,021.1

Malaysia (Apr 28 / Fri)

Stock	High	Low	52w High	52w Low
KLSE	1,121.1	1,121.1	1,121.1	1,021.1
KLSE 100	1,121.1	1,121.1	1,121.1	1,021.1

New Zealand (Apr 28 / Fri)

NYSE PRICES

Continued from previous page									
High	Low	Open	High	Low	Open	High	Low	Open	High
34 1/2% 30/90	3.00	8.7	9.17	35	34 1/2	34 1/2	34 1/2	34 1/2	34 1/2
45 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
55 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
65 1/2% 30/90	1.79	3.8	3.8	65 1/2	65 1/2	65 1/2	65 1/2	65 1/2	65 1/2
75 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
85 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
95 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
105 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
115 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
125 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
135 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
145 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
155 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
165 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
175 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
185 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
195 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
205 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
215 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
225 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
235 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
245 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
255 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
265 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
275 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
285 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
295 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
305 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
315 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
325 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
335 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
345 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
355 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
365 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
375 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
385 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
395 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
405 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
415 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
425 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
435 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
445 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
455 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
465 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
475 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
485 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
495 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
505 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
515 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
525 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
535 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
545 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
555 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
565 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
575 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
585 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
595 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
605 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
615 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
625 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
635 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
645 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
655 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
665 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
675 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
685 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
695 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
705 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
715 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
725 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
735 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
745 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
755 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
765 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
775 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
785 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
795 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
805 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
815 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
825 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
835 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
845 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
855 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
865 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
875 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
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905 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
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975 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
985 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
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34 1/2% 30/90	3.00	8.7	9.17	35	34 1/2	34 1/2	34 1/2	34 1/2	34 1/2
45 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
55 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
65 1/2% 30/90	1.79	3.8	3.8	65 1/2	65 1/2	65 1/2	65 1/2	65 1/2	65 1/2
75 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
85 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
95 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
105 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2
115 1/2% 30/90	0.84	2.0	2.02	41 1/2	40 1/2	40 1/2	40 1/2	40 1/2	40 1/2

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Chromalloy	US\$20.5	5	9.05	9.5	General Electric	US\$21.5	0	17.75	10.50
Chromalloy	FFR18	0	10	16	Manor Insurance	US\$13.25	0	11.75	9.75
De Nederlands Afd	US\$18.75	-0.25	16.5	16.25	Philips	US\$25	0	6.125	4.25

Prices for 22/2/87. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web at: <http://listings.fis.com>

2 THE BALEARIC ISLANDS

AIR TRANSPORT • by David White

Passenger traffic soars

Palma's Son Sant Joan airport ranks as Europe's leading centre for charter flights

The man who earned the nickname "Pepe Aviones" (Joe Planes) got to Palma de Mallorca by the long route.

The first adventure of Juan José Hidalgo, the eldest in a family of nine children from the rural Salamanca region of western Spain, was to emigrate to Switzerland. He worked there as a cowherd, a bricklayer and a painter. After five years, he had saved enough money to buy a Mercedes car. And from then on he was in the travel business.

He used the car to carry other migrant workers from Salamanca, then a bus, then a small fleet of buses, branching out to France, Holland, Germany and Portugal.

Expansion brought his first encounter with restrictive practices. He was trespassing on other bus companies' routes in Spain. And so, after five years he dropped the buses and started chartering aircraft instead, from Aviaco, the sister company of Spain's state-owned flag-carrier Iberia.

But in the 1980s, Aviaco withdrew from the charter

business to concentrate on domestic scheduled services. Mr Hidalgo turned to a series of other charter companies, but they collapsed one by one. So he bought his own.

Air Europa, liquidated after the collapse of its UK parent International Leisure Group in 1991, became Air Europa.

"It arrived at a good time," says Mr Hidalgo, now 55, at the modern Palma headquarters of what has become a \$1bn-a-year group.

Air Europa is the biggest of the private airlines which have taken advantage of deregulation in Spain. It has been running regular flights since 1993, first domestic, then international. Scheduled services are now beginning to overtake its charter business.

Mr Hidalgo says he runs his airline with less than a third of the number of staff per aircraft employed by Iberia, his big rival.

The trick has been to do without a separate sales net-

work. Instead, bookings are made at Mr Hidalgo's travel agency Halcón Viajes, now with about 500 branches.

Discussions with two other big Mallorca-based groups, Baró and Sol Molé on a shareholding in Air Europa could create a more powerful tourism grouping: two large hotel chains, two leading agencies, tour operators and the airline.

Palma has become the base for both of Spain's biggest surviving private-sector jet airlines - the other being Spanair which began operating in 1988 as a joint venture between the Spanish Vías Marsans travel group, with a 51 per cent majority, and SAS. Spanair's fleet has grown from one aircraft to 21, on domestic and international charters and regular services between airports in Spain and the Balearic and Canary Islands.

The reason for setting up in Mallorca, says Mr Hidalgo, had as much to do with the previous chain of airline collapses as with Palma's importance as an air traffic centre.

It was simply where most of the redundant skilled staff, from pilots to mechanics, were to be found.

Palma's Son Sant Joan airport is predominantly used for charter flights. Accounting for three-quarters of air traffic in the Balearic

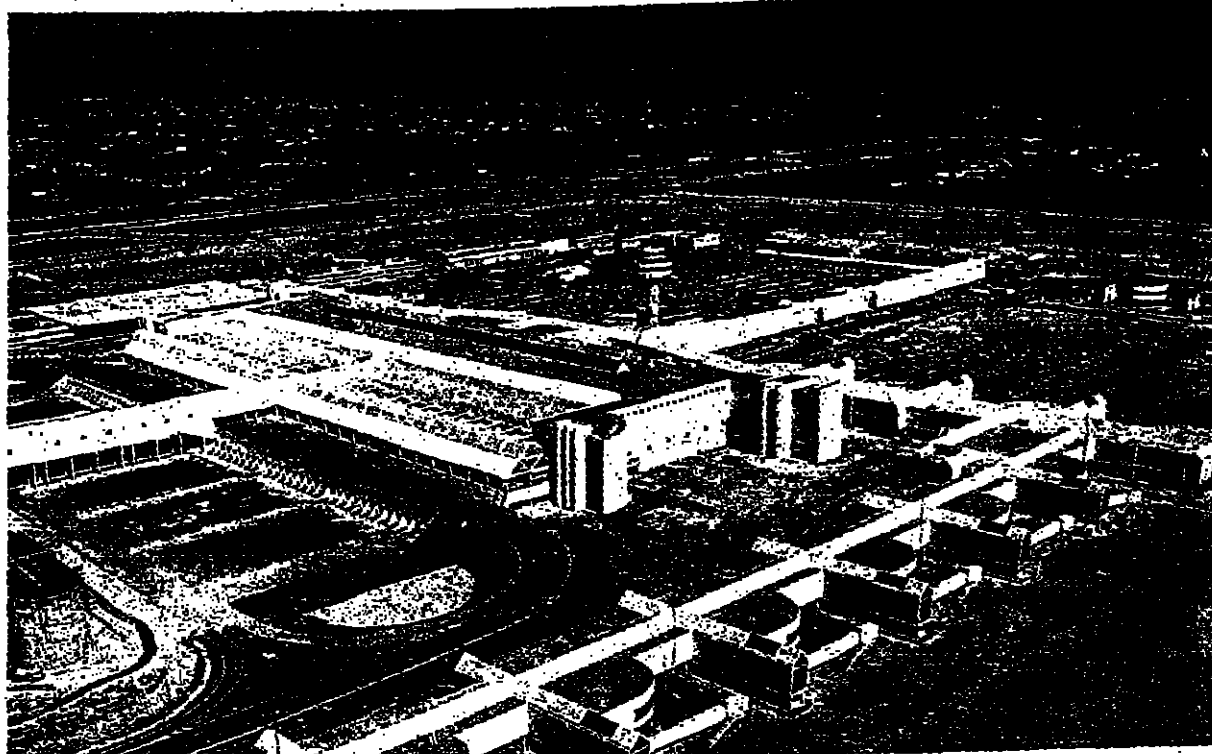
Islands, alongside the airports of Ibiza and Menorca, it ranks as Europe's leading charter centre - and in the high summer as Europe's busiest airport - handling up to 120,000 passengers a day on July or August weekends.

More than 80 per cent of its activity is concentrated between April and October.

Last year, Air Europa and Spanair stood at number one and number three respectively in the Palma traffic figures. Number two was

Germany's Hapag-Lloyd. More Germans travel to and from Palma than Spanish citizens. On the other hand, Iberia last month stopped its scheduled connections between Palma and Frankfurt, Paris and London - a decision that has met strong local objections. And there is no scheduled connection with Brussels.

A new terminal building, inaugurated this month, is designed to cope with peak volumes of up to 12,000 passengers an hour. The terminal is the centrepiece of a Pta40bn remodelling plan



The new terminal at Palma's Son Sant Joan airport is designed to cope with peak volumes of up to 12,000 passengers an hour

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sengers an hour. The terminal is the biggest edifice ever constructed in Mallorca, and has 204 check-in counters. Eventually it will have 64 aircraft "fingers". This is the centrepiece of a Pta40bn remodelling plan which has been under way for the past four years, financed mainly by the national airport authority Aena with a Pta1bn contribution from the European Union's Cohesion Fund.

The move of Palma's air-

port to this site in 1960 marked the beginning of the island's modern economic era. Annual passenger traffic reached 1m in 1962 and had doubled by 1965.

In 1987, it passed 10m, and last year it exceeded 15m. Airport officials say that with the new facilities it should be able to handle up to 25m passengers a year. And that, in the view of tourism planners aiming more at quality than quantity, is more than enough.

PROPERTY • by Tom Burns

Germans arrive en masse

The local press has reported that 50,000 Germans now own property in Mallorca

In the space of little more than an hour on a Friday evening two weeks ago, 13 aircraft flew back from Palma's airport to assorted destinations in Germany.

In the airport bars, waiters efficiently took orders in German and if you shut your eyes to the rose wine sunset it could have been the departure lounge of Munich, Munster or any other airport between the Rhine and the Oder.

Jokes have been made about Germany buying the island of Mallorca as a good-will gesture that will hoist Spain onto the starting grid of monetary union. Mr Kai Dost, who sells lots of Mallorca houses to Germans - 41 in the slack first three months of this year against 104 in all of last year - takes a different view.

"Germans are flocking here because they are unhappy back home. That's why I came", he says. The Palma-based property con-

sultants he works for, Kühn and Partner, opened three new offices on the island last year and plans to start up another two this year.

"The mix of mild winters, marinas and golf courses seems to be irresistible for the Germans," says Mr Juan Olabarria, a manager at Vibelba, a big German-owned property developing company that is headquartered just outside Palma. "They started to come after the 1993 recession and we haven't stopped building for them."

Nor, it appears, have the Germans stopped playing golf. Such is the demand to get onto the greens, that for the first time this year all of Mallorca's 12 golf courses remained open during the winter. Three more courses are due to be completed within the next two years.

Vibelba owns the exclusive Son Vida hotel and golf club complex close to Palma and has added a new upmarket development nearby with more golf facilities and 500 housing units. Two more similar developments are now planned.

After rapid growth in construction and sales in the

early 1990s, property prices dropped sharply between 1989-1993 - "we were then selling very cheaply or not at all," says Mr Olabarria. Although prices have since recovered, the renewal of the construction business and the mix of both primary and secondary homes that characterises housing in the Balearics has ensured price stability.

Last year, some 2.6m Germans arrived as tourists to the Balearics - only slightly fewer than the British contingent. But far more interesting in the long term for the economy of the islands is the growth of the long-term foreign resident market.

The local press has reported that 50,000 Germans are now property owners in Mallorca - a figure which sparked off the talk about Germany buying the island. Mr Dost reckons the number is about right although he believes there are even more British householders.

The difference is that Britons began acquiring property on the islands 40 years ago while the Germans have arrived en masse in the past four years. What is more, the Germans seem to have the

market to themselves. "The English have disappeared as buyers," says Mr Olabarria.

Who are these foreigners moving in to the island and why have they chosen Mallorca?

The property buyers fall into two main groups. One is formed by Germans in their early fifties who are buying holiday homes now that they will later use year-round when they retire. The other is formed by younger professionals, architects, designers, asset managers and accountants, consultants of one kind or another who, as Mr Dost terms it, are "unhappy" back home.

With the onset of the modern and online communications, the lap-top professionals have opted to use Mallorca as their professional base.

The island - a two-hour commuter flight from Germany - trumps potential competitors for this market. "Sardinia is too cold in winter, Greece and Tenerife are too far away and Marbella has too many Russians," says Mr Dost.

Resorts, equipped with golf and marinas, are the traditional magnets for the



San Boryla, a mansion with 5km of its own coastline in western Mallorca, is scheduled to be transformed into a hotel by Richard Branson

foreign residents (Port d'Andraitx, in the south-west of Mallorca, currently exerts the greatest pulling power) and Deia, once Robert Graves territory and now associated with Richard Branson, has always enjoyed a niche demand. What is new, however, is an increasing interest in homes in Palma's historic quarter.

Mr Fernando Palazuelo, who runs a company called Arte Express, has converted a string of old houses, some of them palatial, in the area

around Palma's stunning gothic cathedral, keeping in all cases their external character intact. He has brought to the island a building business he created in Barcelona where he helped the successful redevelopment of the old inner city neighbourhoods ahead of the 1992 Olympic Games.

The clients for his mostly two-bedroom and moderately priced apartments in old Palma are a mix of Spaniards and foreigners, not all German. "I sold one to a ship

designer who lives in the Isle of Wight and, incredibly, comes here virtually every weekend."

Mr Palazuelo sees Mallorca filling up with an increasingly sophisticated cosmopolitan population of wealthy individuals and globe-trotting, self-employed professionals who will spend increasingly long periods each year on the island. Clients and friends include a Polish architect who divides his time between Vienna and Palma and a British busi-

nessman who travels frequently to Singapore and Manila.

The possibilities of the emerging market that Mr Palazuelo has pioneered in old Palma has not escaped the notice of the giants in the island's real estate business. Vibelba has just acquired a block close to the cathedral and is negotiating redevelopment permits. "We think there is a very interesting and attractive market in the historic centre," says Mr Olabarria.

PROFILE Matutes

Empire is a family affair

The Matutes empire includes shipping, construction, travel and property companies, about 40 hotels and holiday apartment complexes in Spain and the Caribbean, and ventures in agriculture and fish-farming. But you will not find it in any listing of top Spanish companies.

"As an amalgamated unit we don't exist," says Mr Daniel Pons, general manager of Fiesta Hotels, the principal family business interest of Mr Abel Matutes, the Spanish foreign minister, also known in his home territory as "the king of Ibiza".

The Matutes group has no holding company, and does not produce a consolidated balance sheet, says Mr Pons. Fiesta Hotels itself is just a trading name. It is not registered as a company.

In Ibiza, the group is omnipresent, but not always obviously. Its headquarters is an anonymous building in the town centre, fronted by a travel bureau and an estate agency. The entrance to Empresas Matutes is down a passageway between them.

This is the hub of the businesses built up by Mr Matutes, successively mayor, senator, congressman, European

commissioner, Euro-MP and minister.

The amiable Mr Matutes, now 58, founding father of the conservative Popular Party in the Balearic Islands, has isolated himself from any direct management role in the group. But along with his family he maintains ownership control of all its parts.

Mr Matutes, born into the richest family of what was still a poor island, returned to Ibiza after two university degrees and a stint as a professional footballer in Barcelona. His grandfather, also called Abel, had founded a bank which still exists - these days as a subsidiary of Italy's Istituto San Paolo di Torino. It goes under the name "Banco Sampaolo, formerly Banco de Ibiza", but locals still call it the "Banca Matutes".

The family has retained an interest - a small shareholding in the Italian parent group and a minority stake in the Ibiza-based Spanish offshoot.

The rest of the empire is what Mr Matutes created himself. He started as a partner in a small building supplies company, then went into the hotel business by converting a small block of flats with some friends. At the beginning of the 1970s he spent a short and unfortunate period as Ibiza

town mayor, an appointed post under the Franco regime.

A spat with the air ministry over what was to be his third hotel, under construction at the end of the airport runway, ended with the building's demolition. Mr Matutes did, however, win compensation. And despite the setback, the business had already taken off.

The group's hotels and holiday flats, according to Mr Pons, total between 22,000 and 25,000 beds. In Ibiza, still its principal base, it is the leader, geared totally to package tour business. The UK provides 65 per cent of its clientele in the Balearics. "We have hotels where everybody in the hotel is British," he says.

"We have always been conservative, not only politically, but in the business, too. We're not a risky company," Mr Pons says. Fiesta Hotels is wedded to the mass trade. In his view, recent initiatives to develop smaller-volume, luxury establishments, are "irrelevant to the economy of the country and the number of people employed. They may be good for the overall image of the islands, but that's not our market."

He defends the sort of high-rise development that

characterised the rapid growth of tourism as being "what the public demanded" at the time. "If in 1969 we had tried to create horizontal hotels on the coast, everybody including the tour operators would have said we were crazy. Everything was vertical."

Fiesta Hotels, a chain made up of self-standing companies with varying shareholding structures, has expanded in the past five years with developments in the Dominican Republic and acquisitions in Mallorca. It also has two hotels in the Canaries.

Other Matutes interests range from ferries to a high-tech dairy farm, from an aqua-park in Ibiza to a large fish hatchery near Cadix. And there is still the original building supplies outfit.

What these companies have in common is that the family always has majority control. Mr Matutes's brother, Antonio, chairs the group, and his eldest daughter Carmen recently started working in it.

Has the group benefited from Mr Matutes's political career? Mr Pons says it is just the contrary. "If he had not gone into politics, we'd probably have 100 hotels instead of 40."

David White

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THE BALEARIC ISLANDS

The package holiday trade has transformed the islands but there is now a widely-shared belief that the Balearics have gone as far as they can in mass tourism, perhaps too far. David White reports

Richest region of Spain

Spain's Mediterranean islands are the archetype of a region transformed by tourism, propelled from immemorial backwardness to relative wealth. It used to be that those who left the islands did so for good, but after four decades at the centre of the package holiday trade, islanders who once were a people of farmers, fishermen and emigrants have become tourists themselves.

But where do people from Mallorca and Ibiza go when they go on holiday? Travel agencies in the Balearic Islands - one of the world's prime tourist destinations, every year receiving 10 times as many visitors as their own population - are currently advertising breaks to Venice, Turkey and the Caribbean.

And when they take off to the Dominican Republic they go to stay in hotels owned by Majorcan and Ibizan companies. In the sector which has become their main source of revenue, the islands have created their own commercial empire.

The Balearics are to tourism what California is to information technology. For no other reason than the holiday trade, they form the richest region of Spain, with an average income of more than \$20,000 a head, some 60

per cent above the national average. The region was the first in Spain to exceed the average income level of the European Union, where most of its visitors come from. It is also one of the fastest-growing and it has the largest proportion of its population in employment.

It caters for all tastes, from the cheap and rowdy to the exclusive and secluded. Since the 1970s, Mallorca has been the summer haunt of Spanish royals. At the same time, its airport in the peak season becomes the busiest anywhere in Europe.

It is an eminently cosmopolitan society, with foreigners accounting for perhaps a tenth of the resident population; restaurants accustomed to coping with non-Spanish hours; and some areas resembling far-flung suburbs of Dortmund. For the past couple of summers, fresh water has been brought to Palma de Mallorca by ship, because the brackish local supply was not considered up to standard.

"Forty years ago, more than 50 per cent of our gross domestic product was agriculture," says Mr Jaume Matas, president of the autonomous regional government. "Now it is 1.6 per cent."

The region is run as three administrative units - Maj-

orca, with the bulk of the population, half of it in Palma, the islands' only real city. Menorca and Ibiza-Formentera. The service sector makes up more than 80 per cent of the economy. There is little alternative.

A limited local market of 770,000 consumers and high transport costs for importing raw materials or sending finished products are long-standing island handicaps. Such industry as exists is largely craft-based - for example, quality leather goods and artificial pearls - and even then relies a lot on tourist custom.

Minorca alone has more of a balance between industry and services. "But on the other hand that is why it is less economically developed," say regional officials. As a result, they say, Minorca is gradually following the same path as the other islands.

"Tourism," says Mr Matas, "is the reason the Balearics are what they are." Dependence on holidaymakers brings seasonal fluctuations in job levels, but unemployment stays well below mainland Spain's 22 per cent.

The islands' economy has proved less vulnerable in recession; more responsive

along by their own efforts. Regional officials say that apart from discounts for resident EU citizens on travel to the mainland, there are no significant concessions.

"This is the secret of the Balearics economy. The private sector has done everything," says Mr Matas. His favourite example is the cleaning of the crowded beaches east of Palma, which is done not by local authorities but jointly by businesses. Competition is strong in most sectors, from ferry services to newspapers: Mallorca has four local dailies in Spanish, one in Catalan and one in English.

For Mr Matas, the develop-

ment of this "completely neo-liberal society" explains both the islands' success and the centre-right Popular Party's dominance in the region. But this dominance doubtless also has a lot to do with conservative traditions and personality-based politics.

Ever since the regional government was set up 14 years ago, it has been in PP hands. It was one of the first regions secured by the party, and held up as an example of PP management. It has the smallest number of bureaucrats per head of population of any region, the smallest budget and the lowest debt in relation to its GDP.

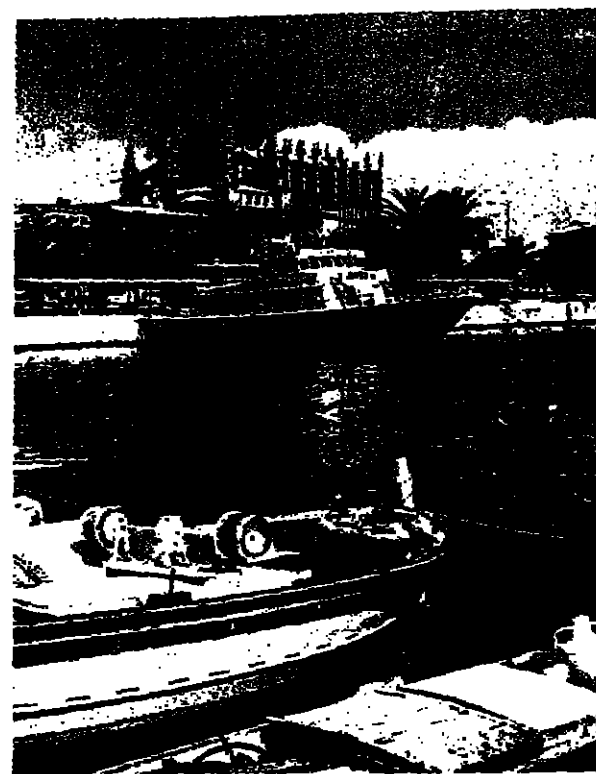
But since 1995 the party's record has been submerged in serious embarrassments. Mr Gabriel Cañellas, the region's first president, three times re-elected, had to resign amid allegations of illegal party financing through commissions on a road-tunnel project. He now faces trial on corruption charges.

Mr Cañellas quit reluctantly, at the insistence of Mr José María Aznar, the PP's national leader, then already on his way to becoming prime minister. And the affair has been followed by another court saga over an

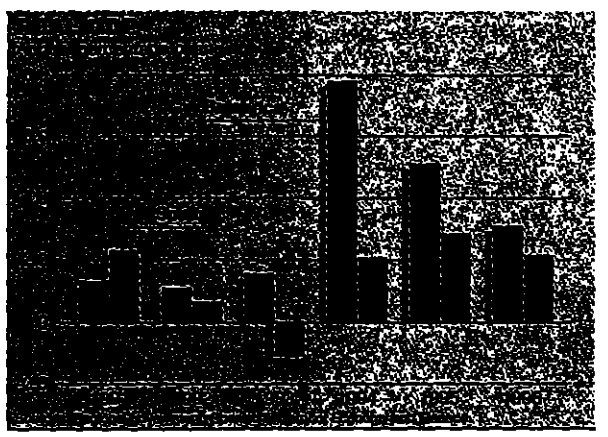
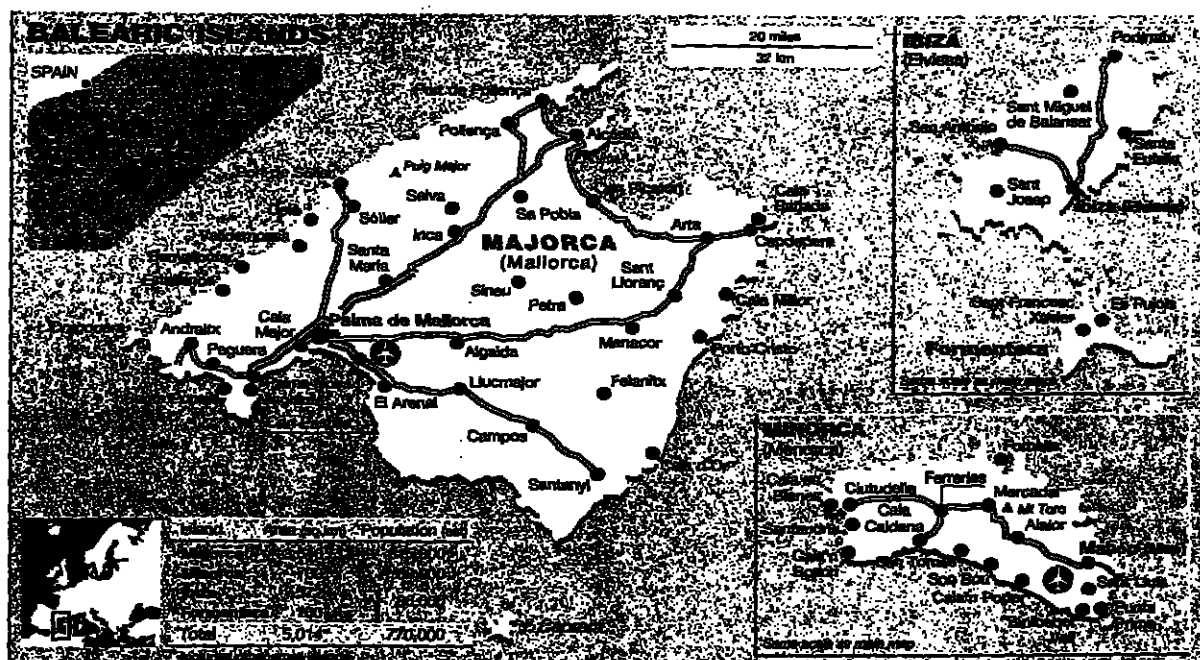
alleged attempt at bribery to gain control of a densely-developed municipality to the west of Palma. After an interlude of party infighting, Mr Matas, 40, took over as president last June, the third president in two years.

The most recent arrival among Spain's regional leaders, many regard him as embodying the continuing influence of Mr Cañellas, and he has yet to secure his position for the next regional contest two years from now. The PP's lead in the region, never overwhelming, has been eroded, and control of Mallorca's island council has for the first time been lost to a left-wing and regionalist coalition.

Unlike the Canaries, the Balearics have had no strong indigenous political movement. Although the different islands - each with its own variant of the Catalan language - command strong loyalties, the sense of regional identity is relatively weak. But any alternative to the PP would almost certainly involve a pact between the mainstream Socialists and the separate Majorcan Socialist Party, which has been gaining ground with a pronounced

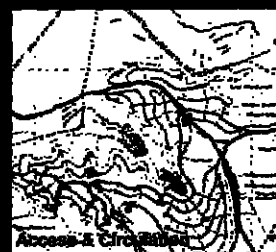


Mallorca: an emblematic cosmopolitan society, with foreigners accounting for a tenth of the resident population. Picture: Peter Baker



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4 THE BALEARIC ISLANDS

PROFILE Perlas Majorica

Buyers by the busload

Manacor does not look the sort of place people would want to visit, but they do. Majorica's second town, it features drab streets of boxy buildings and furniture workshops, and giant billboards advertising artificial pearls – which are what the tourists come for, by busload.

Managers at Perlas Majorica, the island's most emblematic trademark, say the shop at the factory site is the biggest in Europe devoted to a single sort of article made by one company. It would be a hard claim to disprove. In the peak summer months, the shop staff is increased from 80 to 150.

Having built its reputation on an imitation product, Majorica is in constant battle with imitators of its own. The company, which started operating here in 1950, hit on its current production process in 1951 – "the best artificial pearl in the world," it confidently asserts. It says it now has the same difficulty protecting its brand name as Rolex or Cartier.

The company employs about 700, mainly at two factories at Manacor. One makes pearls, the other produces a range of gold, gold-plated and silver jewellery, almost all with pearls as their main feature.

Majorica has its headquarters and design department in Barcelona, and another facility in the Canary Islands collecting the marine products that go into coating the pearls.

The barracks-like main factory turns out more than 50m pearls a year, in different sizes and colours – cream-pink, white, grey and black. Mechanisation in the selection procedures begins with the ceramic nucleus around which the pearl is made. Misshapen ones are marked and weeded out. The good ones are given a series of fine layers of a resinous substance made



Quality control despite the high output of about 50m pearls a year, much work is still done by hand

with fish-scales, emulating in a controlled way the process of the oyster creating a natural pearl. Bathed and polished many times over, they obtain an iridescence and lustre that Majorica claims nobody else can match. "They are better than many cultivated pearls," say managers.

About 25 per cent are rejected somewhere along the line. Quality controls are done by eye. Automated control systems are still under development, the company says.

The factory has machines for various parts of the manufacturing process – forming the cores, sorting pearls by size, polishing – but the same operations are also done by hand: applying blowtorches to sticks of ceramic, shaking the little globules through sieves, polishing up the coated pearls.

Mechanisation is a gradual process. The company insists on making all its machines on-site, for fear of giving any bit of the game away to competitors.

In one corner of the

plant, Majorica imitates its imitators, producing a lower-quality variety of pearl than it would sell under its own name. These, employees say, take two or three days to make, compared with about three weeks from start to finish for the pure-bred Majorica product.

The nearby jewellery plant stands out in bright, modern contrast, with galvanising done by robots and with a computerised stock of wax dummies for each product of the range, made to order and dispatched by air freight. In an industry where workforces of single-digit numbers are standard, the plant is a relative mammoth, employing more than 160. But here, too, production relies heavily on manual skills.

Last year, Majorica sold Pta4.7m worth of necklaces, earrings, pearl-bracelet watches and other items. Just over half – worth Pta2.4m – were exported. Through the Spanish company and French and US subsidiaries,

it sells directly to retailers and duty-free shops in 67 countries. Japan, for all its tradition in cultured pearls, figures regularly among its top three markets.

Competitors have tried to cash in by using similar names – some local, others as far afield as Brazil. "Pure rubbish," say Majorica executives.

The formula for coating the pearls is probably the most closely guarded secret in the islands. But it is not Majorica's only secret. The company is sparing about financial information, and does not discuss its shareholders, made up of private interests including descendants of the German-origin founders.

It has been in negotiations to bring in an outside partner, and was reported last year to be on the point of opening its capital to the Austrian-Swiss-based Swarovski group. But the company insists that all options are open and nothing has been decided.

David White

INDUSTRY • by Tom Burns

Shoes may show the way

Policy planners are focusing on preserving industries that used to flourish

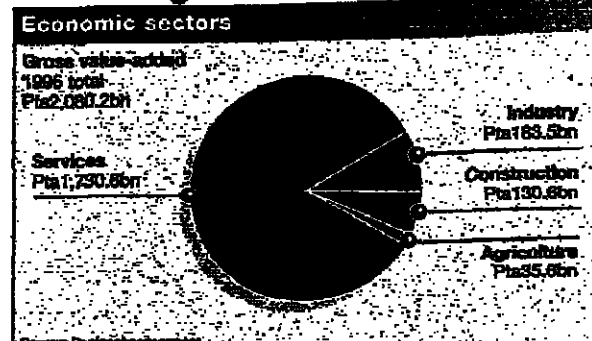
Tourism has made the Balearics rich but the islands were not on the headline before package holidays were invented. They had a diversified self-sustaining economy.

Farmers in the Balearics produced olive oil, cheese and a full range of market gardening products. An artisan class, using skills originally introduced by the Phoenicians, the Greeks and the Romans, worked with jewellery and leather.

In the Balearics, moreover, a sophisticated Moslem culture that established strong roots during the 500-year Arab occupation of the islands gave a new impetus to the cottage industries and perfected irrigation and windmill techniques. Economic activity has always been a feature of the Balearics.

As occurs in other resort areas, policy planners at the islands' Palma-based government nevertheless express their fears about a tourism monoculture that has now placed all the Balearic eggs in the same basket. The need for diversification heads the agenda in the departments run by Mr Josep Juan Cardona, an Ibiza-born lawyer and the local minister for agriculture, industry and trade.

Mr Cardona and his team are not, however, seeking to develop new businesses. Rather they are attempting to preserve the industries that used to flourish. "I see part of my job as defending what we have always done



on these islands: shoes, leather work and costume jewellery," Mr Cardona says. His departments certainly do not seek to substitute tourism. This would be complete folly. His team believes, instead, in a partnership with the 30-year-old cash cow of the Balearics economy.

Ideally, the traditional economic activity should complement the burgeoning service sector that the tour operators have created. The preservation of certain industries enhances the tourism attractions of the islands and the year-round invasion of foreign visitors should in turn stimulate certain manufacturing processes.

Take agriculture. The Balearics government backs the shrinking population of farmers (and ensures they receive the appropriate European Union subsidies) not because local agriculture is commercially viable but because it is scenically and environmentally friendly in an area that needs to remain beautiful.

If the terraced olive plantations were not kept in good trim the scenery would suffer. "What is more, tourists really enjoy going to see the old olive mills at work," says Mr Cardona. If they

buy – and most do – a bottle of virgin olive oil that has been pressed using a technology that was invented 2,000 years ago, then so much the better.

The same goes for artisan crafts such as glass-blowing. Such island industries only exist because they have busloads of tourists turning up to view a picturesque conjuring act. Without the foreign visitors they would have disappeared.

Despite the partnership possibilities between tourism and the traditional activities on the islands, the industrial outlook looks decidedly bleak. The number of shoe manufacturing companies in the Balearics dropped from 312 to 266 between 1987 and 1996. Over the same period, 50 of the 125 costume jewellery producers went out of business. Even allowing for considerable "black" or sub-merged employment in industrial sub-sectors that are formed by essentially small, family-owned companies, the labour figures are depressing. Fortunately tourism has created jobs.

In 1996, the Balearics government recorded a total of 3,882 jobs in the textile, leather work, shoe manufacturing and costume jewellery sub-sectors. In 1996, this number had fallen by 49 per

cent to 4,951. Jobs in the shoe manufacturing business, by far the biggest industrial employer on the islands, fell by nearly 53 per cent from 5,391 to 2,536.

And yet it is precisely in the shoe industry that the local government places its greatest hopes for diversification. The value of exports from Balearics shoe manufacturers rose from Pta991m in 1992 to Pta1.7m in 1996. In the first five months of last year, according to the latest set of figures furnished by the local government, shoe exports were up by 41 per cent on 1995.

The numbers are derisory in absolute terms but what is important is the trend that has been set in motion. The Balearics shoe industry may have contracted in terms of jobs but it has become profitable by concentrating on the more expensive sector of the market thanks to a judicious mix of investment in high-tech systems (backed by local government subsidies) and of innovative design.

The shoe business in the Balearics, mostly located in the Majorica town of Inca, represents, in value, 2 per cent of total shoe production in Spain and 3 per cent of total shoe exports. This export premium is basically the result of price: the sale price of a top quality and high fashion shoe produced in the Balearics is more than double the average sale price of Spanish shoes.

The success of a quality-driven strategy in the shoe sector should point the way ahead for the policy planners who worry about diversification. Costume jewellery, the other big non-tourism employer, should follow the same route to the top bracket customers.

Tom Burns

PROFILE ParcBIT

Surfing the cutting edge

The genesis of ParcBIT, the Balearics innovation and technology park, can be traced as follows:

Research important trends in the next millennium, paying special attention to thoughts on leisure, life styles and information technology; hire a top architectural firm to package the theories into a living space; then spend a lot of money in the hope that the project will take off sooner rather than later after the year 2000.

If nothing else, ParcBIT shows the Balearics government enthusiastically surfing the wave of cutting edge post-modernism. It is initially spending some Pta6m in the hope of persuading a cultured, cosmopolitan community to set up shop on a 140ha greenfield site where parts of that community will dream up clever ventures. BIT stands for Balearics, Innovation and Technology.

"In 1990, we had a brainstorm about the 21st century and about where the Balearics should be heading as a consequence of the megatrends we identified," said Mr Andreu Font, chief executive of

ParcBIT. "Out of this this came a strategy for turning the islands into a knowledge-intensive business resort."

The Balearics government acquired the park land outside Palma which adjoins Majorica's scenically situated university campus and created ParcBIT as a wholly government-owned company which will develop the site and subsequently be at least partially privatised.

Mr Font has trawled through the academic world for ideas to launch the site. The London School of Economics has been hired to study business perceptions of Majorica and Tel Aviv university has been asked to identify innovative technology projects that might be interested in establishing research facilities at ParcBIT.

An international competition was organised in which participants were asked to plan what is essentially a new town on the ParcBIT site, combining residential, working and leisure areas. It was won in 1995 by the London-based Richard Rogers Partnership of international architects and Mr Font hopes that by

1999 the first offices in ParcBIT will be opening for business.

The team led by Sir Richard Rogers has designed three urban clusters for the site, each of which will combine living and working areas, and the three landscaped "villages" or nodes will in turn form a distinct community. ParcBIT will be mostly pedestrian and the size of the three small villages, according to the site's promotional literature, is defined by the practical limits of walking between each node and across the whole development.

The design seeks a "balanced" community in which each node branches out from public buildings, exhibition centres and hotels, a church, schools and libraries, spread around and near a market square. The buildings fan out from this centre to form a working and living district, mixing apartments and offices, and then there is a quieter residential area on the outskirts.

Mr Font claims that ParcBIT will incorporate every possible environmentally friendly

initiative, including solar panels and state-of-the-art water management, and that it will be wholly geared to cope with information technology requirements.

The next question is who will want to live and work in this knowledge-intensive business centre? Mr Font says ParcBIT has space for 1,000 living units and that they will all be taken up.

The answer is linked to what the local government's policy planners perceive to be the shift in Majorica's population and economic activity. The island will increasingly attract residents, foreigners and Spaniards, in place of seasonal tourists, and these residents will increasingly use Majorica as a place of work rather than as a retirement home.

Mr Font likes to talk about creating a "business resort". This is either a contradiction in terms or, as he claims, it is a wholly viable 21st-century project that makes perfect sense in a well-connected and culturally developed Mediterranean island such as Majorica.



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PROFILE Sol Meliá

Still anchored to its original roots

Majorca was the cradle of Sol Meliá, the listed leisure group that manages more than 200 hotels in 25 countries. Forty years after Mr Gabriel Escarrer, its controlling shareholder and chairman, began running hotels on the waterfront of Palma's bay, the island remains very much its corporate headquarters.

Mr Sebastian Escarrer, the chairman's son and Sol Meliá's chief executive officer, says the group may have gone global but it remains "anchored to its roots". The Balearics still contain the highest concentration of Sol Meliá hotels although the fees earned from managing the island properties represent at most 15 per cent of the total earned by the group.

It is not just sentiment that keeps the headquarters located in an industrial estate midway between the city of Palma and its airport. Mr Escarrer stresses that Majorca is the tourism capital of Spain in part because it receives more tourists than anywhere else but, much more importantly, because it has been the launching pad of virtually all the other big domestic leisure groups.

"People in the Balearics understand tourism," he says. "We're the only group that is operating as far afield as Asia but what we've all learnt is that once you've made the jump out of the Balearics, you find you're in the same complex business whether you're in the Caribbean or in the Canaries."

Mr Escarrer junior comes across as a paradigm for a new generation of hotel industry business leaders who fuel the wealth of the Balearics. But it was his father, a self-made entrepreneur, who spotted the leisure trend and pioneered the prosperity of



Sebastian Escarrer studied business administration at Wharton College in the US

the islands. El fundador (the founder) as his son reverentially refers to him, started work at the age of 16 as a messenger in a Palma travel agency and began managing his first hotel when he was 20.

Sol Meliá lore has it that Mr Gabriel Escarrer, who had been an altar boy in the local church, enlisted the help of the parish priest to persuade an elderly parishioner to let him run a hotel she owned on a profit-sharing basis.

A year later, Escarrer senior was managing five hotels with views over Palma's bay and filling them with the clients of the tour operators whom he had met at the travel agency where he continued to work.

As charter flights began to descend on Majorca in the late 1950s, Sol Meliá's founder soon discovered that he could finance the acquisition of hotels with tour operator contracts. Others in the Balearics followed his lead as the package tourist industry took off.

Mr Sebastian Escarrer studied business administration at Wharton College in the US, worked in investment banking and then for an American hotel chain, before being recalled

by his father to take a job in the family business. The younger Escarrer's singular contribution to the business has been to first segregate it into two companies - one dealing with hotel ownership and the other with hotel management - and then to list the management side of the business on the stock market.

"I worked out this strategy while I was at Wharton because it was the strategy that Marriott (the US hotel chain) was taking at their headquarters just across the road in Philadelphia. But it took a bit of time to persuade my father that it made sense for us."

The initial public offering by Sol Meliá last summer placed 40 per cent of the family business on the market, raised \$275m in fresh capital for the group and set new records for an international placement by a Spanish company.

Since then Sol Meliá, the only hotel group so far to trade on the domestic stock exchange, has been one of the strongest stocks on Madrid's Bolsa.

In the close-knit world of Balearics business, the Sol Meliá experience could prompt other companies to go public. "I would encourage all sorts of companies to do what we have done," says Mr Sebastian Escarrer.

Analysis believes that the success of the listing and the determined growth strategy that the Escarrers have mapped out for Sol Meliá will almost certainly lead the group to tap the markets again. Father and son are keen to open for business in London and in other big European capitals that are favoured destinations for Spanish tourists.

Tom Burns

TOURISM • by David White

Attempt to lure big spenders

There is an effort to 'reposition' the islands in the market and extend the season

There is more hotel accommodation in the few miles of flat beach area in the bay to the east of Palma de Mallorca, than in the whole of Belgium.

The Balearic Islands were already well known as a popular holiday destination in the mid-1960s, when the number of visitors reached 1m. Last year, the figure was 8.5m, including 1m from mainland Spain, heavily outnumbered by more than 3m Germans and 2.5m Britons.

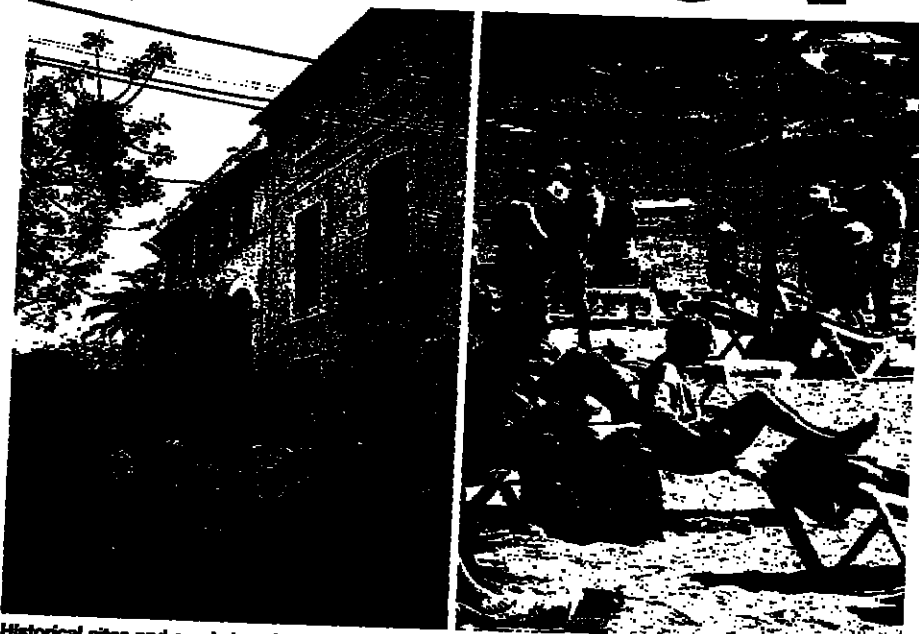
According to the economic studies department of Sa Nostra, the regional savings bank, tourism generated Ft706bn of business last year. Price increases this year are expected to add another Ft22bn, taking the figure over the \$5m mark at current exchange rates.

What is remarkable is that there is still countryside left. For every square mile of the islands there is a hotel or a holiday apartment block - 2,870 of them on the official register, some with more than 1,000 beds.

The hotel business was built on money from international - mainly British - tour operators rather than local capital, but the bulk of it is in local ownership. These Balearics companies not only dominate their home market but in several cases have become tourism multinationals.

Of the top 10 Balearics companies listed by Actualidad Económica, the Spanish business weekly, seven are in the hotel, travel or air transport sectors, including the country's two leading private-sector tourism concerns, the Viajes Iberia travel group and the Sol Meliá hotel chain.

The Barceló group is one of the oldest, now with a third generation of the family in top management. It began in 1931 as a small bus service running from Felanitx in the east of Majorca to Palma. Later came a travel



Historical sites and sandy beaches lured 8.5m visitors last year

Pictures: Martin Edwards and Gary Cook

agency, and the company started renting small hotels. When the rapid growth came in the 1960s, it began building its own big hotels aimed at a family clientele, first in Majorca, then the other islands, then mainland Spain.

In the 1980s, as the Balearic Islands became increasingly saturated with tourists, the Barceló group pioneered Spanish hotel ventures in the Dominican Republic, where its rivals are mainly other family-run Balearics companies such as Riu Hotels.

The 39-strong Barceló chain now ranges from a city hotel in Prague to Nica-

ragua, Mexico and the US. From experience accumulated as one of the first package-tour destinations, the Balearics have become a centre of expertise in the sector. But in the bargain holiday market where they made their reputation, they can no longer compete purely on price against countries such as Turkey with lower labour costs.

Regional authorities are now trying to work with the sector to "reposition" the islands in the market and spread the business over the full year. "We could do a lot more," says Mr Antoni Rami, the regional government's economy chief.

In an attempt to attract higher-spending visitors, some Ft150bn has been spent in the past few years on modernising hotels. Hoteliers say they have stopped building more rooms and are instead concentrating on upgrading those they have.

Government plans include thinning out some of the more densely-developed coastal zones. In terms of sheer numbers, the islands simply cannot take any more in July and August, says Mr José María González Orta, who heads the regional tourism department. "We would even like a slight drop."

Efforts to promote a more up-market image, he says, have so far had more success in Germany than in the UK, which was the biggest source of custom up to the end of the 1980s. He favours maintaining a wide range, from top-category golf holidays to the basic sun-sand-and-disco product for young people.

But the authorities are trying to discourage a trend towards "all-inclusive" packages - an increasing source of distress to restaurateurs who have lost business to the hotels in the past two years. The all-in formula is seen as out of place in the

Balearics, which have about 4,000 restaurants and a regional gastronomy that has until recently been undersold.

In the face of competition, says Mr González Orta, the islands need to focus more clearly on their advantages: their closeness to the main European markets, high standards, and diversity.

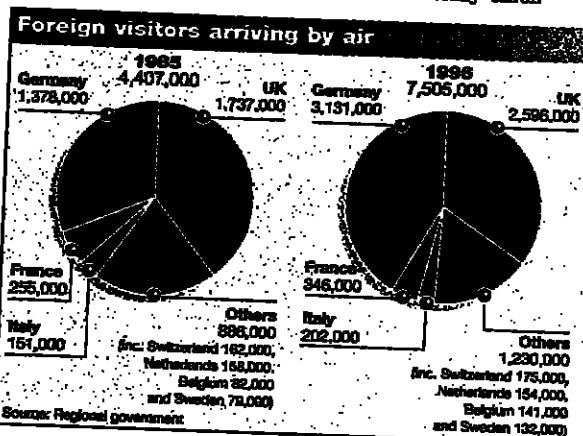
From Minorca, relatively spared by mass tourism and dotted with prehistoric remains, to Ibiza, where 1960s-style hippies co-exist with Spanish fashion-setters and low-budget British sun-seekers, there is no lack of variety.

Cross-currents of history are reflected in the different forms of architecture, from the Catalan Gothic of Palma's palaces and churches, to the Arab-style houses of Ibiza, to the sash windows of Mahón which remind visitors that Minorca was British-ruled for most of the 18th century.

For geographers, this is not one but two groups of islands, with Ibiza and Formentera belonging to a separate archipelago, the Pitiusas, rather than the Balearics proper.

The bulk of visitors are packed in between June and September. Efforts to increase the winter market have had some success in Majorca, but less in the other islands. Although the maximum mean temperature in December is still a pleasant 17 degrees, many hotels close down from late October to March or April.

As a result of this seasonal imbalance, the Balearics show a wider variation in unemployment over the year than any other Spanish region. National Statistics Institute surveys showed last year's rate oscillating between 16 per cent in the first quarter to 11.4 per cent in the third, when it has barely half the national average. The islands' registered working population in July-August was a third more than in January. But the regional government says the disparity is narrowing, and the biggest job gains have been made in the low season.

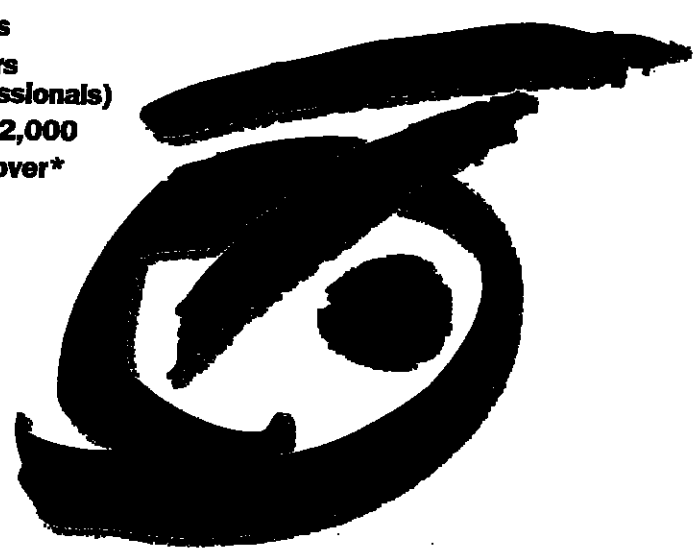


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COMMENT & ANALYSIS



Martin Wolf

This Emu can surely fly

With official figures showing monetary union well within the EU's grasp, member states are most unlikely to abandon the attempt now

As in the referendum in September 1992, a French president has apparently entrusted the fate of European economic and monetary union (Emu) to the mercies of a disgruntled populace. Many in the UK hope the French electorate will save them from having to decide whether to enter. They are fooling themselves. Emu is far more likely to go ahead as planned.

There are three reasons for believing this. European political leaders have repeatedly stated how important they think the project is; they have all, including the French, already imposed almost all the sacrifices necessary to fulfil the Maastricht treaty's economic convergence criteria; and the pain consequent upon that austerity lies largely in the past.

Many in France are miserable about the austerity of recent years and Mr Lionel Jospin, leader of the Socialist party, is campaigning against it. But this is highly unlikely to lead them after the election to sabotage a fiscal position that will probably deliver Maastricht-compatible results in this, the crucial year. That the year in question will already be half-completed by the time of the election would make such a turnaround still crazier.

Even if Mr Jospin wanted to, it is difficult to imagine he would have a majority in parliament for what the elite – and many in his party – would view as an insanely destructive act. Remember that two French socialists – François Mitterrand and Jacques Delors – were the begetters of Emu, while many socialists are true believers in the European idea. They are unlikely to scrap it at the last minute when almost all the pain has been suffered.

Market turbulence might make life difficult for a new government, but only if

investors start to doubt the project. Betting against the French franc proved a bad idea when circumstances were far more strongly against it than now. Betting against peripheral currencies such as the Italian lira might be more successful – but this is unlikely to affect the French decision to enter.

The principal reason France is most unlikely to recoil from Emu is that so much has already been achieved not just at home, but throughout Europe. In its forecasts about which countries will make the convergence criteria last week, the European Commission may have glided the lily. Yet its conclusion that virtually all member states will end up close to the Maastricht treaty targets this year looks quite reasonable. In its World Economic Outlook, the International Monetary Fund agrees.

The IMF says that every country, bar Greece, will meet the criterion for inflation, which is not to exceed the level of the three best performing countries by more than 1.5 percentage points. The same group of 14 is set to meet the interest-rate criterion: that the rate

on long-term securities should not exceed those of the same three states by more than 2 percentage points. Of course, any plausible Emu candidate will achieve this automatically, since the market knows it will soon share the same currency.

The public debt criterion is being defined away. This may seem peculiar since the ratio of debt to gross domestic product looks less silly than the deficit as a way of judging whether a country can live with monetary union, the reason being that a country's indebtedness influences its ability to avoid inflationary finance over the long term.

The Maastricht treaty itself merely says that the ratio of gross public debt to gross domestic product should be 60 per cent, or less, "unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace". Astonishingly, Germany is one of few member states that fails on debt: its ratio has been rising and is expected to reach 62 per cent at the end of this year. Arguably, other failures are Spain and Austria.

Yet Belgium, with a debt

ratio of 127 per cent this year, down from 137 per cent in 1993, and Italy, with a ratio of 122 per cent, down from 125 per cent in 1994, can both be judged to meet the criterion. To conclude that Germany has failed and Belgium and Italy have succeeded is palpably absurd. The solution has been simply to ignore the criterion. This leaves fiscal deficits. According to the Commission, every member state will have a general government deficit of 3 per cent of GDP or less this year, except Italy (on 3.2 per cent) and Greece (on 4.9 per cent). Next year, Italy's deficit is forecast to jump up to 3.9 per cent, while that of Greece falls to 3.4 per cent. The IMF is not far from the Commission. It forecasts that the UK's deficit will be 3.1 per cent of GDP, Spain's 3.2 per cent and the German, French and Italian 3.3 per cent. The others, except Greece, will all be below 3 per cent.

The treaty says that fiscal deficits should be 3 per cent of GDP or less, "unless either the ratio has declined substantially and continuously and reached a level that comes close to 3 per cent, or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to 3 per cent."

Italy, France, Spain and the UK have had declining fiscal deficits in recent years. If Germany's were to be over 3 per cent this year, that would be exceptional. Thus if the IMF were to be right, all these countries would meet the deficit criterion. Italy is also right to be annoyed about its likely exclusion, since its fiscal effort has been extraordinary: in 1994 its deficit was 9 per cent of GDP.

Inevitably, these forecasts depend on the short-term performance of the European economy. But it cannot be said that the Commission is particularly

Full steam ahead for Emu?

General government fiscal balance, 1997 (%)

	Forecast	Official target
Germany	-3.3	-2.5
France	-3.3	-3.0
Italy	-3.3	-3.0
UK	-3.1	-3.0
Spain	-3.2	-3.0
Netherlands	-2.2	-2.5
Belgium	-2.9	-2.5
Sweden	-0.8	-2.5
Austria	-2.5	-2.5
Denmark	-0.1	0.2
Finland	-1.9	-1.4
Greece	-5.1	-4.2
Portugal	-2.9	-2.5
Ireland	-1.6	-1.5
Luxembourg	-0.1	-0.1
All EU	-3.1	-3.1
Reference value	-3.0	-3.0

Source: IMF World Economic Outlook

Powerful currents

Water services worldwide are being handed over to private operators, says Leyla Boulton

When Buenos Aires recently enjoyed its first summer free of water shortages in years, most of the credit was claimed by an international consortium led by Lyonnaise des Eaux, the French water group, and including Britain's Anglian Water.

Like many cities around the world, the Argentine capital has turned to private operators to upgrade and manage its water distribution and sewerage network. And from Argentina to Australia, and China to Germany, it is French and British companies that are sweeping up most of the contracts.

France's two biggest water groups, Générale des Eaux and Lyonnaise, which is proposing to merge with Compagnie de Suez, have the longest experience managing state-owned water assets abroad. But some of the bigger UK companies – created in 1989 when the English and Welsh water industry was privatised – are also keen to expand outside the home market.

"This is our future growth," says Mr David Luffrum, finance director at Thames, the UK company that supplies water to London. Its foreign contracts include a partnership with Générale to manage water supplies in the Australian city of Adelaide.

Only a few cities, such as Melbourne and Mexico City, are considering UK-style privatisation of the assets themselves. Private involvement in the new water markets typically stops short of full privatisation, ranging from short-term fee-based management contracts to 25-year concessions under which companies recoup their costs from water bills.

Existing water utilities – often municipally owned – lack the capital for modernisation and are losing subsidies to cover operating costs.

"The municipal authorities are bankrupt," says Mr Thilo Steinbach of Eurawasser, a joint venture between Lyonnaise des Eaux and Thyssen,

the German conglomerate, which is hoping to take over the management of German water utilities.

In many western countries, private sector involvement also offers the prospect of lower bills – mitigated by the cost of ever-rising environmental standards. Water charges in Germany are 30 per cent higher than in France and 50 per cent steeper than in England.

The demand for efficient water services is even greater in developing countries, where 1bn people lack access to clean water. Mr Ismail Serageldin, the World Bank's vice-president for sustainable development and leading expert on water, reckons the world water industry will need more than \$600bn in investment over the next decade.

"One might conclude we were entering a golden age for private water operators," says Mr Thierry Baudon, managing director of the international finance division of Lyonnaise des Eaux. "Unfortunately this is not so."

Many countries still lack the right political and legal climate for turning the water business over to private operators. In poorer countries where new plant will require higher charges to recoup the investment, consumers need to be persuaded to pay higher bills for improved services.

Three UK companies with international water interests

Demand for efficient water services is even greater in developing countries, where 1bn people lack access to clean water

have recently made provisions for deals that have gone sour. The latest to do so was Anglian which this month unveiled a £15m provision for a Brazilian contract.

Even Lyonnaise des Eaux is having to renegotiate the Buenos Aires contract it holds up as a showcase for the virtues of private operators. The aim is to raise charges for water use so it can cut connection charges to speed up the connection of poorer customers.

Mr Alain Dangeard, a Paris-based consultant, says private operators must become more involved in developing the environment. "As many of these markets have yet to be created, companies will succeed by making things happen rather than by just observing them," he says.

For example, United Utilities, the water and energy company based in the north-west of England, helped Malaysia design a regulatory system for water and sewerage services it now helps to manage.

Mr Steinbach of Eurawasser says he goes to German cities "even before they begin to talk about private involvement in order to explain what can be done".

Mr Baudon of Lyonnaise des Eaux says: "A mercenary approach and excessive focus on the quarterly bottom line is the surest way to fail."

However, Mr Luffrum of Thames, which expects soon to win a 30-year concession to run half of Jakarta's water supply, says foreign contracts are increasingly turning out "black numbers instead of red ones".

Mr Martine Osborne, responsible for water project finance at Flemings, the London investment bank, agrees. "It's been a learning experience for all of us. The [bad] news we're seeing is a bit of a hangover from the past... it would be a pity if UK companies do not play more of a role in these very important international projects over coming years."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fme'), e-mail: letters.editor@ft.com. Published letters are also available on the FT web site, <http://www.ft.com>. Translation may be available for letters written in the main international languages.

Emu long-term debt problems are too readily dismissed

From Professor Peter Coffey

Sir, Like Professor Paul de Grauwe, "Time to declare victory" (April 18), I have always been in favour of the creation of a European currency (though not at any cost). Similarly, I tend to be optimistic by nature.

However, I would question some of the theses supported by the writer. His main thesis concerns the national budget deficits, as a percentage of gross domestic product, of EU member states. This, while the trends are indeed reassuring, we have to ask two questions. First, are these trends – in the case of some countries – the result of "fudging"? Here, I mean the once-and-for-all sales of state assets. And are these trends long term?

I believe de Grauwe, who admits that it is a difficult question, is too dismissive of

the problem of long-term debt. But we have to ask, who will fund this long-term debt in an economic and monetary union?

There is one critically important issue de Grauwe did not examine – the relatively long transitional period between 1999 and 2002 when the euro and the national currencies of the participating countries will fluctuate side by side. During this period, we have at all costs to prevent a repetition of the currency debacle of 1992, well described by Peter Norman and Lionel Barber in your newspaper on December 11 and 12 1992. Should there be a repetition of this volatility, we shall lose our credibility forever. Consequently, only the most stable countries should be allowed to participate in the first contingent of participants in the Emu.

Finally, it is not at all sure

as to the degree to which the creation of an Emu and a European currency will lead to increased economic activity in the EU. While there will certainly be savings in exchange and administrative costs, there will, initially, at least, be costs involved in the move over to the euro. Also, should the euro, at times, be less attractive vis-à-vis the dollar and the yen, on the international exchange markets, for example, interest rates will have to be raised.

Peter Coffey, professor & holder of the US West Chair, University of St. Thomas, DUN241, 52 10th Street South, Minneapolis, MN 55403-2001, US

Decline to continue

From Mr Dan Corry

Sir, Arguments about things as complex as gross domestic product per head at purchasing power parity, and where Britain stands in world league tables, can go on forever, as Robert Chote's discussion points up ("Relative wealth statistics are poor guide", April 23). But there are a number of points worth making.

First, GDP per head is the best measure of the prosperity of a country over the medium term. The government made exactly this point in several of its competitiveness white papers. Of course GDP does not tell us everything about how a nation is doing, but then that is true of any summary statistic.

Second, given how controversial the measurement issues are, it is clearly best to rely on internationally approved figures. OECD figures show the UK is now in 19th position within the OECD, below, for instance, Ireland. It is true the UK is only slightly behind some of the countries that have overtaken it. But this too should be taken in context. Ireland for instance was well over 30 per cent behind the UK as recently as 1990.

While this dispute will continue, it is hard to dispute that the internationally recognised data point to Britain continuing its relative decline, something that most notice whenever they travel abroad.

Dan Corry, senior economist, Institute for Public Policy Research, 30-32 Southampton Street, London WC2E 7RA, UK

Links with Premier fully detailed

From Mr E. Barrie Stephens

Sir, Roland Shaw, Premier Oil's former chairman, writes (Letters, April 28) concerning the proposal to re-elect Mr Sam Laidlaw, chairman of Amerada Hess to the Premier board at the company's annual meeting on April 30. Mr Shaw also raises the question of conflict of interest arising from Amerada's 25.25 per cent holding in Premier and its own international exploration and production activities.

At an annual meeting on February 13 1996 Premier shareholders approved the acquisition of Pict Petroleum and agreements made with Amerada, which had a

substantial shareholding in Pict. In accompanying documentation full details were given of agreements between Premier and Amerada. Under these, Amerada has the right to appoint two directors to the Premier board while it holds 20 per cent or more of the ordinary share capital.

On the point about conflict of interest there are, I think, two points worthy of note. First, Premier's articles do not permit Mr Laidlaw or any Amerada director to vote on any resolution before the board in respect of any contract between Amerada and Premier. This article has been strictly observed. Second, Premier's

rapid growth during the last year, particularly in the highly competitive south-east Asian region, could not have been achieved against a background of conflict of interest, as opposed to the encouragement that Premier has received from Amerada.

Mr Shaw writes that he has the highest regard for Mr Laidlaw's abilities. I expect most of Premier's shareholders will regard this as the deciding factor in voting for his re-election.

E. Barrie Stephens, chairman, Premier Oil, 23 Lower Belgrave Street, London SW1W 0NH, UK

IMF at forefront in urging structural reform in Ukraine

From Mr John Odling-Smee

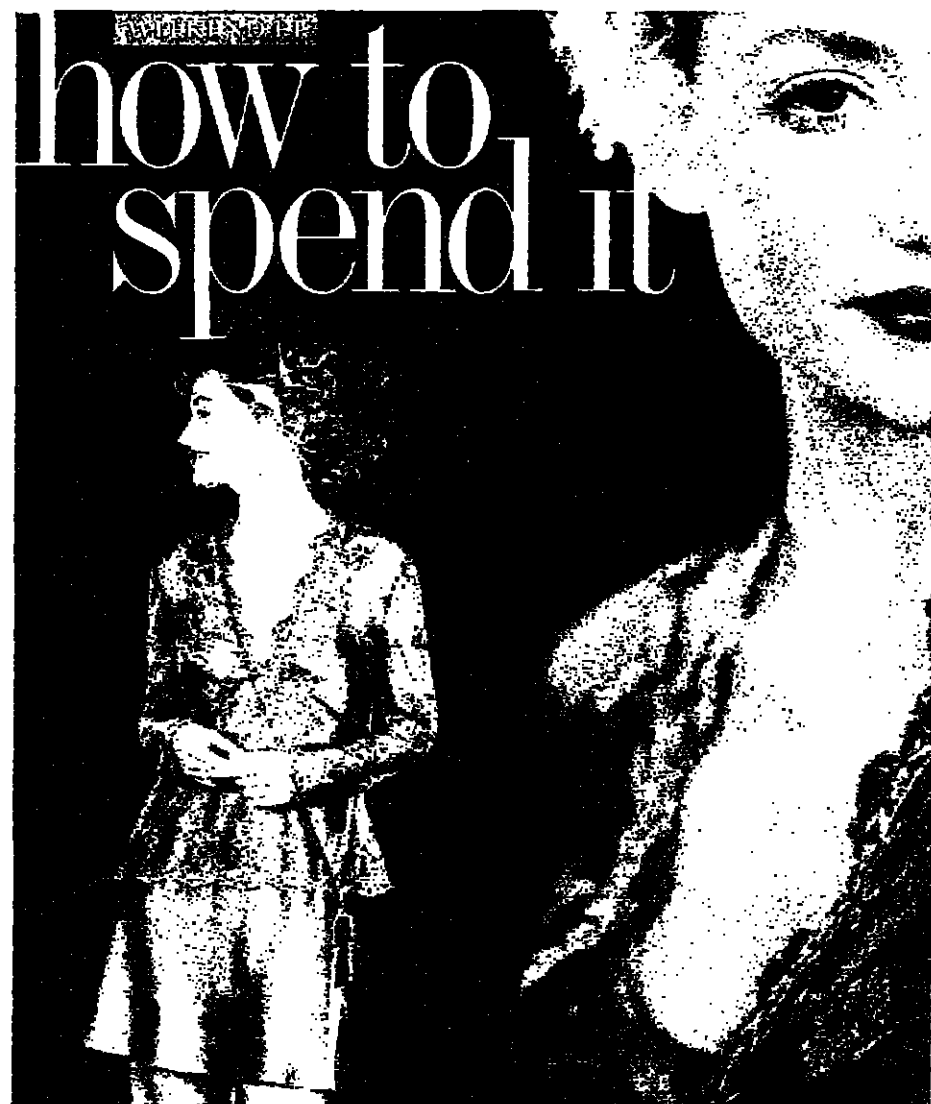
Sir, The statement by Mr Jeffrey Sachs, reported by your correspondent in the article "Ukraine to set trading band for its currency" (April 25), that "As usual, the IMF focuses all its attention on the

budget deficit and ignores structural reform" is simply incorrect. In Ukraine, as in other countries of the former Soviet Union, the International Monetary Fund has been in the forefront, and uncommonly vocal, in pressing for

deregulation, market-based reforms, improvement in governance, and the enforcement of contracts. The reality is that these are complex matters, and that sovereign governments, even with good intentions, are finding it difficult to

deliver change as quickly as we all would wish.

John Odling-Smee, director, European II department, International Monetary Fund, Washington DC 20431, US



Why does retreating to the rural mean a pay rise and more time with the family? Which famous fashion labels are beginning to fall from grace? Is investing in rugby worth the price of the ticket? And if you are in some of the world's smartest stores and not shopping, what are you doing there?

Find out in the monthly how to spend it magazine, published with the Weekend FT on Saturday, May 3.

Financial Times.
World Business Newspaper.

Scenes from the Sixties

William Packer compares the different attitudes of the French and British to the decade

The trouble with history – social, cultural, political or whatever – is that it so seldom falls in with the neat numerical divisions of the calendar. Yet we fondly persist in believing it does, blithely shoe-horning the one into the other at risk of all sorts of mental corns and grazes.

Take the Sixties, that now distant, sunlit, aqualid, confused and confusing golden age. Whatever else it was, it did not begin on the dot of 1960, nor end with 1969. And how lightly the name is thrown about to summon up, well, whatever the thrower cares to summon up – student riots, Vietnam and Grosvenor Square, mini-skirts and flower power, Sergeant Pepper and Rock and Roll, the pill, the Profumo Affair, devaluation and the Thoughts of Chairman Mao.

The trouble is that they were mythologised as they were happening, and myth tends to hang around. We really believed all that stuff about freedom and youth and peace and love, a new dawn breaking with Kennedy, Wilson, Bob Dylan and Cohn-Bendit. It takes a brave man to seek to dispel such myths. But 30 years on is a decent interval, and the cultural historian David Mellor has been making it his business for some time now.

Four years ago, his study of *The Sixties Art Scene in London* was shown at the Barbican, a useful trawl through the work of the years from 1956 to '68 – that is to say from Suez, Budapest and "Blue Suede Shoes" to Prague, the Pound in Our

Pocket and "A Whiter Shade of Pale". Now, with Laurent Gervereau, of the Museum of Contemporary History in Paris, whose initiative it was, and Sarah Wilson of the Courtauld, he brings us *Les Sixties*, a comparative look at what was being done in England and France between 1962 and 1973, from *Jules et Jim* and the Beatles' first LP to the oil crisis. *Vivent les différences*.

To English experience, this second timetable is rather less persuasive than the first, it being more reasonable to anticipate than to prolong. Mellor himself accepts that all the elements that were to make the Sixties what they were, were already in place by about 1963 at the very latest – the Beatles, David Hockney, David Bailey, all up and running and Harold Wilson lighting up in the wings.

But France was running to a later, different schedule which was more openly political and intellectual. 1962 saw Charles de Gaulle returned to office, the Algerian settlement supposedly just resolved, the Franco-German Treaty about to be signed. The student manifestations of 1968 were but the mid-way point between the miners' strikes of 1963 and the general strike of 1973.

Such differences emerge in the work itself. Where the French will theorise and strike an attitude, the British will improvise and play about. The British, contrary to stereotype, are hedonistic, of the moment, gently anar-



'Bardot', 1964, by Gerald Laing: politically incorrect, and rather a relief

chic, the French so very much more to the point. Eric's *Intérieur Américain* has the red guards at the window, bayonets fixed; Pauline Boty's two proto-feminist paintings, "It's A Man's World", with their heroes and pin-ups, is more iconically indulgent than polemical.

Mellor divides his show into five principle sections, though none is, nor could be, hermetic or definitive. They touch severally upon the consumer culture, the uses and effects of the media, images of women, the all-

pervading influence of pop music and its transmutation into psychedelia, and finally politics. "Today the Struggle: Tomorrow Utopia". There is nothing of the countervailing formalism of those times, hard-edge and minimalism, and implicit conceptualism, no Yoko Ono. But choices had to be made, and that door is held open by reference to the performance-art and the fixing light shows and events put up by Mark Boyle and Joan Hills.

It is altogether an intriguing exercise, made all the

more so by the curious ambivalence of both the original material and the intention of the organisers. In this week of all weeks, the week of the British general election, the point could hardly be more striking. For, now as then, the viewer's complicity in the utopian vision of the left is assumed, the inference clear, that not to share in it would surely be either stupid or perverse. But what of naivety? Those implacable Red Guards are more than a little worrying. We now know rather more of Mao and his Little Red Book

than we did then, and of Ho Chi Minh and Pol Pot. Don't we? And we turn back to Gerald Laing's "Bardot", to Allen Jones's high-heeled dominatrix and Nigel Waymouth's psychedelic extravagance, politically incorrect as they may be, with something like relief.

Les Sixties – Great Britain and France 1962-73, The Utopian Years: Brighton Museum and Art Gallery, Church Street, Brighton, until June 29; supported by Visiting Arts and l'Institut Français.

Concert/Andrew Clark

Out of tune with the western soul

It seemed as if the entire Japanese population in the UK had congregated in the Royal Festival Hall on Saturday to hear the Saito Kinen Orchestra under its conductor, Seiji Ozawa. Since founding it in 1984 in memory of the influential Japanese teacher Hideo Saito, Ozawa has led the orchestra on a series of triumphant international tours and made it the focal point of a summer festival in the Japanese Alps. Their latest London concert, devoted to Schoenberg's *Verklärte Nacht* and Beethoven's *Evangelist* Symphony, reassured the orchestra's reputation for immaculately clean, fine-tuned playing. This is without question one of the world's elite ensembles, endowed with a level of concentration and motivation befitting a group of musicians who come together once or twice a year for the fun of it.

By rights, the concert should have been exhilarating. Instead, it was profoundly depressing: to think that so much skill, allied to such great music, should result in such emotional and spiritual aridity. During the opening movement of the Beethoven I found myself fantasising about what might happen if another conductor, more in tune with the music's heart and soul, took these players by the scruff and shook them into something less polite, less neatly turned out, but more responsive to the physical and moral force of Beethovenian drama.

Perhaps Japanese musicians, however well integrated in western orchestras, revert to national stereotypes in a group, technically brilliant but robotic. How, then,

do you explain the feminine softness and sheer eloquence with which the violins executed the opening theme of the Schoenberg? Or the ethereal restraint of the cellos in the central Adagio? This was peerless sensitive musicianship. And how can you blame Japanese stereotyping in an orchestra which numbers Karl Leister, Reinhard Holch and other distinguished German guests among its players?

The problem lies more with Ozawa. In the right repertoire and with the right orchestra, he can be quite inspiring. But give him the core classics, the ultimate test of a conductor, and he is like a puppet aping the sounds and movements of his mentors. Beethoven's opening Allegro con brio sounded streamlined and shapeless, as if some superbly oiled machine had trundled out the disruptive off-beat accents and adrenalin-powered climaxes. The funeral march was majestically impersonal. The Scherzo was saved by a glorious horn trio, the finale by the spring-clean effect of the woodwinds in the fugal variations.

Verklärte Nacht fared better, if only because richness of sonority is intrinsic to it. Ozawa pulled the lines of construction as taut as could be, emphasising the neurotic rather than elegiac quality in the music. On this evidence, Japanese musicians have copied their western counterparts to the point where, note for note, they are better than the original. But can they tune in to the western soul?

Sponsored by Yamaha.

Jazz/Garry Booth

Blue notes in a rare acoustic

Sunday is not a very jazzy day of the week. Neither is the Wigmore Hall a spot that springs to mind if you're thinking about blue notes. But some inspired programming has produced a season of small group acoustic concerts that make the music, the place and the day seem a good combination. It is good value too, for each main event is followed by a "club" gig in the downstairs Bechstein Room.

Last Sunday, a trio led by the British clarinetist and saxophonist Tony Coe delivered two wistful sets of understated chamber jazz made for a rapt audience and superior acoustic. To the steady accompaniment of longtime sideman John Horler on piano and Malcolm Creeve on double bass, Coe improvised ruminatively on a mix of well-worn standards and originals.

He looks a shambles, and has the comely appeal of an old armchair. His latest CD release, "Blue Jersey", may well be dedicated to one of the old pullovers he favours.

But as another jazzier said of him, Coe has the musical mind of chess player. Though he doesn't seem to leave his native Canterbury much, he was the first European ever to win the international Jazzpar prize.

Switching easily between clarinet, soprano and tenor saxophones, 62-year-old Coe explored all the corners of "April in Paris", made a careful brown study of his own "A Song Of Old St. Peter's" and invoked the gruff spirit of Coleman Hawkins in "Body & Soul". Horler's sparkling and contained runs were the ideal partner for Coe's organised, though wide ranging improvisation: Creeve providing vivid yet tranquil colouring for the tunes.

The theme of quietly intelligent extemporisation carries through the season and multi-reeds mephisto John Surman, appears next week; look out also for the guitar double bill of American Jim Hall and British virtuoso Martin Taylor, and a solo outing for pianist Abdullah Ibrahim at the end of May.

Theatre/Sarah Hemming

Laying a family ghost to rest

It cannot be said that the Royal Court is doing much for the Irish tourist industry at present. The theatre recently staged Martin McDonagh's *Beauty Queen of Leenane*, which was set in a dank cottage in the west of Ireland, featured a miserable old woman and her embittered daughter, and focused on poisoned family ties, loneliness, frustration and dark secrets. Now, here comes Tom Murphy's *Balloon-gate*, which is set in a dank cottage in the west of Ireland, features a miserable old woman and her embittered grand-daughter, and focuses on – well, you've guessed the rest.

Murphy's play, however, is a more serious piece of writing and, it must be said, a more difficult one to appreciate. But gradually it gathers force until by the end you

are totally enthralled. And James Macdonald's steadfast production holds your attention with three wonderful performances from Rosaleen Linehan, Brid Brennan and Ruth McCabe.

Linehan plays Mommo, an old woman who spends the entire play in a massive wooden bed. With her startled white hair and vacant eyes, she looks like a character from Beckett – and sounds like one, too, as she embarks on a rambling, absurdly-detailed story that seems to have little to do with anyone on stage. She is tended to by her grand-daughter Mary, played vividly by Brid Brennan as an intense, intelligent woman whose looks and prospects are beginning to fade.

To begin with, Mommo's story, which she narrates with great flourish, seems remote from Mary and from

her blousy sister, Molly (a giddy desperate Ruth McCabe), who comes to visit them. But gradually we realise that the story, which she evidently repeats night after night but never finishes, is a confession of sorts and that at its heart is a guilty secret that affects them all. Soon we are behind Mary, willing Mommo to get to the end of her story and lay whatever ghost it is that haunts them.

The play has a double narrative: that of the events on stage, as Mary and Molly quarrel over what to do with their rambling relative and argue about whose life is the most frustrated, and that of the events in Mommo's agonisingly protracted story. Slowly, the two narratives dovetail, bringing to a head the pain and despair of all three characters and, as

Mommo finally reaches the end of her tale, creating a sense of peace.

Murphy's concern seems to be partly with language itself and the way it can be used to both reveal and conceal. He contrasts the halting speech rhythms of the two younger women with the ornate, almost rococo style employed by Mommo, for whom every word seems chosen to keep the truth, and her own death, at bay.

It is a dense but engrossing play and Macdonald's production, though slow in places, pulls you into the story. And Rosaleen Linehan holds the stage with her restless portrayal of a woman suspended painfully between this world and the next.

Royal Court Theatre Upstairs, Ambassadors Theatre, London WC2 (0171-565-5000).



Rosaleen Linehan: a wonderful performance

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Rotterdam Philharmonisch Orkest, with conductor Jurkin Heijkoop and soloist Vivianne Hagner in works by Berlioz, Paganini, Debussy and R. Strauss; May 3

ATHENS

CONCERT
Athens Concert Hall Tel: 30-1-7263333
● Athens State Orchestra: with conductor Karolos Trikolitis and pianist Nikolaos Demidenko in works by Beethoven; May 2

BERLIN

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Martha oder Der Markt zu Richmond: by von Flotow. Conducted by Sebastian Lang-Lessing. Soloists include

Amada Halgrimson and Herbert Lippert; May 3

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Tel: 49-228-9171200
● Die Grossen Sammlungen VI: selection of works from the collection of the Hermitage Museum in St Petersburg; to May 19

GENEVA

CONCERT
Victoria Hall Tel: 41-22-3283573
● Philharmonic Orchestra of St. Petersburg: with conductor Yuri Temirkanov and pianist Constantin Liforitz in works by Moussorgski, Rachmaninov and Stravinsky; May 3

GENOA

EXHIBITION
Palazzo Ducale Tel: 39-10-562440
● Van Dyck a Genova – Grande pittura e collezionismo: exhibition examining the years Flemish painter Anthony van Dyck (1599-1641) worked in Genoa. The display features around 40 paintings as well as works by artists including Titian, Caravaggio and Rubens; to Jun 13

HELSINKI

EXHIBITION
Amos Anderson Art Museum Tel: 358-9-840221
● The Still Life: 200 years in

Finland: survey of Finnish still life works from the 1800s up to the present day; to May 11

LIVERPOOL

EXHIBITION
Walker Art Gallery Tel: 44-151-2070001
● Sir Lawrence Alma-Tadema: exhibition of work by the painter who was born in the Netherlands, but settled in London in 1870, becoming very popular for his idealised, but accurately detailed and colourful scenes of Greek and Roman life. The exhibition features some 70 paintings, a selection of watercolours and a display of photographs from the artist's own collection showing the influence of photography on his work; to Jun 8

LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● Philharmonia Orchestra: with conductor Kurt Sanderling and violinist Antje Weithaas in works by Mendelssohn and Shostakovich; Apr 30
Wigmore Hall Tel: 44-171-9352141
● Andrea Schmitz: performance by the baritone, accompanied by the pianist Rudolf Jensen. The programme includes works by Brahms; May 1

EXHIBITION

British Museum Tel: 44-171-6361555
● Printmaking in Paris: Picasso and his Contemporaries;

exhibition examining developments in printmaking that took place between 1905 and 1970. Organised as a sequence of episodes the display looks first at the Cubist works of Picasso and Braque, then moves on to Matisse, the Surrealists and the post-war work of Soulages and Dubuffet, finishing with pieces by Vasarely, Poliakoff and Manessier; from May 1 to Sep 30

National Portrait Gallery Tel: 44-171-3060055

● Ignatius Sancho (1729-1780): exhibition examining the remarkable life of Sancho, who was born a slave yet died a well-known and respected figure in London's literary, artistic and musical circles; to May 11

Tate Gallery Tel: 44-171-8878000
● Louis Corinthe: retrospective exhibition devoted to Louis Corinthe, one of the pioneers of German Impressionism. The display includes nearly 80 paintings, approximately 20 drawings and watercolours and a selection of prints; ends on Sunday

NEW YORK

EXHIBITION
Brooklyn Museum Tel: 1-718-6385000
● American Paintings: display of works taken from the Museum's own collection of paintings from the first half of the 20th century. Featured artists include Florine Stettheimer, Marsden Hartley and Georgia O'Keeffe; to Jun 29
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Human Figure in

Transition: American Sculpture from the Museum's Collection 1900-1945: selection of smaller-scale sculptures, illustrating both classical and radical tendencies in representations of the human body in the first half of this century; to Sep 28

Metropolitan Opera House Tel: 1-212-362-8000

● Rusalka: by Dvorak. Conducted by John Fiore. Soloists include Renée Fleming, Frances Girzer and Dolora Zajick; May 3

PARIS

CONCERT
Théâtre des Champs-Élysées Tel: 33-1-44781233
● Orchestre National de France: with conductor Patrick Summers, mezzo-soprano Olga Borodina and baritone Dmitri Hvorostovsky in works by Rossini and Donizetti; Apr 30

EXHIBITION

Centre Georges Pompidou Tel: 33-1-44781233
● Cherrin faisan, Frère Crayon et Sainte Gomme: Designs de Martial Rayssé, 1952-1993: display of 100 drawings by the French artist who came to prominence in the early 1960s as part of the New Realism, quickly gaining a reputation for having a more modern outlook than his more nostalgic peers; to Jun 9
Institut Néerlandais Tel: 33-1-53591240
● Kees Van Dongen retrouvé.

L'oeuvre sur papier 1895-1912: display of work by the Dutch artist who settled in Paris in 1897, quickly gaining a reputation as a society painter of wit and sophistication; to Jun 8

Musée d'Art Moderne de la Ville de Paris Tel: 33-1-53674000

● Jurg Sasse: display featuring 26 recent works by the young German photographer who takes snap-shots of everyday life, which are scanned and altered by computerized technology to produce surreal images; to Jun 22

STOCKHOLM

EXHIBITION
Nationalmuseum Tel: 46-8-6664250
● Acquisitions From the Stockholm Exposition of 1897: display marking the 100th anniversary of what is still the largest exhibition ever held in Sweden. A number of works are being exhibited for the first time since 1897; from May 1 to Sep 1

VALENCIA

EXHIBITION
IVAM Centre Julio Gonzalez Tel: 34-9-3863000
● Bernard Plosser: exhibition of work by the Vietnamese photographer; to May 30

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08.30 Squawk Box

10.00 European Money Wheel

16.00 Financial Times Business Tonight

New Indian government faces crisis over corruption charges

 By Mark Nicholson
 in New Delhi

India's week-old United Front government was yesterday facing its first political crisis as police announced plans to prosecute on corruption charges one of the coalition's senior powerbrokers.

The Central Bureau of Investigation, India's central criminal agency, said formal corruption charges would be laid within a few weeks against Mr Laloo Prasad Yadav, the controversial chief minister of Bihar, one of India's poorest states. He is also president of the Janata Dal, the biggest single party in the UF coalition.

The charges risk aggravating political differences within the 12-party UF a week after a divisive leadership battle ended with the election of Mr IK Gujral as prime minister.

The development also coincides with the emergence of policy differences in the coalition as four leftwing parties in the UF said they intended opposing several proposed reforms in the UF budget.

The opposition Bharatiya Janata party, as well as four leftwing parties within the UF, immediately called for Mr Yadav's resignation. "This is necessary to conform to the norms of public conduct and propriety," the quartet said in a joint statement.

But Mr Yadav resisted, saying he saw no reason to quit and would fight the charges in court. "I am fully confident I will win," he said. Mr Yadav, a tenacious and unorthodox politician, has risen to prominence

Senior coalition powerbroker will fight \$280m allegations

in Bihar as a self-styled advocate of "empowerment" for the state's lower castes and has cultivated a "rural", anti-establishment manner.

The charges arise from a 15-month investigation into alleged misappropriations worth up to Rs9.5bn (\$280m) over several years from a series of Bihar state schemes to provide subsidised animal feed.

The Central Bureau of Investigation said it would also prosecute 55 others, including one sitting UF minister from Bihar and several Bihar politicians and civil servants.

Mr Yadav's defiance risks deepening political divisions within the Janata Dal and the

UF government, already raw from the leadership battle just over a week ago.

Such strains had already prompted the Tamil Maanila Congress, a regional Tamil Nadu party, to withdraw from the United Front. The TMC, which includes Mr P. Chidambaram, finance minister in the last UF government and author of its budget, was yesterday still debating whether to rejoin the coalition.

Should the TMC remain aloof, Mr Gujral would have to pilot the budget's finance bill through the house himself, having kept the finance portfolio in the hope of persuading Mr Chidambaram's party to return to the fold.

The leftwing parties seeking changes in the budget are opposed to proposed state asset sales and an opening of health insurance to private sector participation.

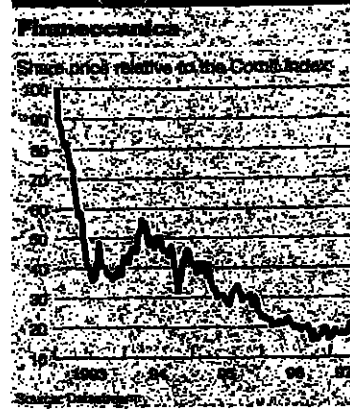
view, are odds-on favourites to succeed in today's auction.

Angst at Andersen

THE LEX COLUMN

For a business stuffed with corporate strategists, the messiness of Andersen Worldwide's structure - currently the source of much internal angst - is truly amazing. Theoretically, AW brings together Arthur Andersen (accountants) with Andersen Consulting (consultants). Yet although resources, training and even profits are shared according to a murky formula, the two businesses are staffed and run separately. Little attempt is made to direct clients of the one in the other's direction. On the contrary, the growth of Arthur Andersen's consultancy business means they increasingly compete.

But does this matter much? It is difficult to believe so. There is certainly a case for further dismantling the two businesses' financial arrangements to reduce unnecessary friction, if this can be done while preserving the value of a mutually beneficial brand. But if it cannot, rivals would be unwise to crow. AW may have a peculiar and fractious structure but it has not done its business much harm. The spectacular growth of Andersen Consulting, in particular, has left the more integrated accountant/consultant combines standing. And its unusual freedom from the accounting culture is one of the more persuasive explanations.

 FTSE Eurotrack 200:
 2234.0 (+6.9)


Iri has come up with an alternative solution. It is turning Finmeccanica back into a holding company, giving its various operations more autonomy. This gives those businesses more power to fight against being sold off, and therefore extends Iri's raison d'être. The government should make a counterproposal - to shut down the costly Iri, and let the treasury accelerate the privatisation process. If it does not, there could be little left to sell.

CVRD

The Brazilian legal system permitting, today should finally witness the privatisation of Brazil's CVRD, the world's largest iron ore producer. If the form book is to be believed, the Valecon consortium, including South Africa's Anglo American and Grupo Votorantim, Brazil's largest family company, will prevail. Certainly the synergies are more compelling than with the rival CSN consortium, which has played the reluctant bidder with some conviction.

For Anglo, CVRD offers a unique opportunity to become overnight a huge force in the iron ore market. Votorantim, meanwhile, can lick its lips at the benefits to be garnered from access to the CVRD's huge rail network. But whether shareholders should cheer is more questionable. The value of the assets is not in doubt. But the tight security around the Rio de Janeiro stock exchange is a sobering reminder of how difficult it may prove to realise this value. The hostile political climate precludes any wholesale job cuts or restructuring. Perhaps it is just as well that two family companies, famous for taking the long

view, are odds-on favourites to succeed in today's auction.

Cadbury Schweppes

International food/drink companies from Unilever to Danone to Coca Cola have won over the investment palate of late, but Cadbury Schweppes has remained too bitter-sweet. And until its management outlines a more convincing strategy for the soft drinks business, it will struggle to win a rating.

Cadbury's problem is that it is a distant third in the US soft drinks market against formidable competitors which control their own distribution. And its international presence scarcely registers. Cadbury's route to the US market is on the back of Coke, PepsiCo, and a motley crew of independent bottlers - an unenviable position. So while Cadbury continues to increase drinks profits, a growing risk rating is being attached to that profit stream. The management needs to help convert the independent bottlers into a viable competitive force by encouraging rapid consolidation. That would create a stronger safety net. And if PepsiCo launches a competitor to 7-Up, as expected, safety nets will be in high demand.

However, it should be possible to strengthen the independent system substantially over the next few years. And the rewards would be considerable. Cadbury's shares trade at a price-earnings discount to the market. But successful global branded businesses attract premium prices, as Procter & Gamble's Tambrands acquisition shows.

Hambros

It was always ironic that Hambros advised the near-bidders for the Co-operative Wholesale Society, a sprawling quirk of history crying out for restructuring. Hambros itself, after all, has its own aggressive shareholder complaining of years of underperformance and demanding reform of the bank's antiquated structure.

CWS should not use yesterday's apology from Hambros as an excuse to avoid necessary changes. But by the same token, this embarrassing episode should encourage Hambros, too, to think long and hard about the virtues of a break-up and thus greater management focus.

Additional Lex note on Halifax, Page 25

Dollar sees new rise

Continued from Page 1

senior economist at Citibank in London, called it "a green light to buy dollars".

Some G7 officials in Washington yesterday made more aggressive comments on the dollar. Mr Yasuo Matsushita, the governor of the Bank of Japan, said "the markets will gradually come to understand" the significance of the G7 statement. Strategists said this comment as a threat that Japan would intervene in the market, perhaps aided by other G7 nations, if the dollar rose further. Mr Hans Tietmeyer, the Bundesbank president, said the G7 countries did not want an "overshoot" in the foreign exchange markets.

News Corp TV threat

Continued from Page 1

from its new partner. News Corp had also asked for other issues to be resolved before proceeding. EchoStar said the demand that it should switch to News Corp's own conditional access system would have "economic and technological implications", but refused to give more details of the dispute.

News Corp could not be reached for comment, although officials were quoted as saying they expected the merger to proceed once the differences had been resolved.

The row is the latest in a series of setbacks for Mr Murdoch's project.

A plan to beam local broadcast programmes from space, starting this year, has been held up indefinitely by legislative delays.

Italian Northern League suffers election setback

By Robert Graham in Rome

The populist Northern League, which advocates secession from the Italian state, suffered a significant political reverse in Sunday's local elections.

Voters in the rich northern industrial regions of Lombardy, Piedmont and the Veneto seemed to have deserted the League for the parties in the centre-right opposition alliance headed by Mr Silvio Berlusconi, the former premier.

The vote for parties in the centre-left Olive Tree coalition government, headed by Mr Romano Prodi, held up surprisingly well, in spite of opinion polls showing an erosion of support. Compared with last April's general elections, the Olive Tree coalition plus the hardliners of Reconstructed Communism looked set to lose little more than 1 percentage point of its vote nationwide. The Party of the Democratic Left (PDS), the dominant partner in the coalition, maintained its 21 per cent of the vote, while in the north the smaller centrist parties lost ground.

Voters shunned in large numbers the bombastic secessionist rhetoric of Mr Umberto Bossi, the League leader. With

Voters abandon secessionist party for centre-right opposition group

counting still going on last night, it was clear the League had lost its flagship city of Milan which it captured in 1993 and turned into a symbol of its new-found political clout.

The League was projected to gain more than 15 per cent of the vote, compared with 40 per cent four years ago. Across the north, with few exceptions, the League suffered similar reverses. This enabled the candidates of the centre-right opposition in the politically crucial cities of Milan and Turin to come out ahead with almost 44 per cent of the vote, though they failed to obtain an absolute majority to win on the first round.

The elections involved 9.4m voters, almost a fifth of the electorate, choosing mayors and councils in 1,115 cities and towns, and six regional administrations. It was the first significant test of electoral opinion since the Olive Tree alliance, backed by RC, took office last May.

Local elections are run under a first-past-the-post system, unlike general elections which have 25 per cent of seats elected by proportional representation.

RC, which is not part of the government but provides parliamentary support, saw its vote rise to almost 10 per cent. The RC's performance will be decisive in the run-off voting on May 11 in many cities - especially Milan and Turin.

Commentators said RC would be able to exercise increased influence over government policy. This will be important in the negotiations for pension reforms, regarded by the government as vital to cut public spending and sustain a credible budget deficit.

Commentators said Mr Berlusconi's position as leader of the opposition had been eroded by the growing importance of the vote for the rightist National Alliance led by Mr Gianfranco Fini. In a number of towns, the AN vote advanced above that of Mr Berlusconi's Forza Italia movement. Disaffected League voters are believed to have gone to AN in the north rather than to Forza Italia.

Italian voters, Page 2

Steel prices equalise across Europe

Continued from Page 1

year east European exports fell to 4.84m tonnes.

Western exports to eastern Europe are smaller - totalling 837,000 tonnes in 1996.

But they are concentrated in high-priced products such as stainless and coated steels. Mr

Fish said that the increase in east European prices would now create more import opportunities for western companies.

Import duties, now imposed on EU exports to eastern Europe, are scheduled to be removed in 1999, under agreements between the EU and

east European countries.

However, Eurofer, an EU-wide steelmakers' organisation, said that it remained difficult to expand exports to eastern Europe because potential purchasers rarely had cash to pay for orders.

Granting credit was "risky", said a Eurofer official.

FT WEATHER GUIDE

Europe today

Most of central Europe and southern Scandinavia will have rain, with maximum temperatures between 12C and 17C. Eastern Europe will be warmer with sunny spells. A few scattered thunder showers may occur during the afternoon.

The Benelux, UK and western France will be mostly cloudy with temperatures between 12C and 17C. A shower is possible, especially in the morning.

Most of Spain and Portugal will be rather sunny and warm with temperatures exceeding 30C in the south.

Five-day forecast

High pressure will steadily expand towards western and central Europe, and most regions will turn drier and warmer. Only the UK, southern Scandinavia and the northern Benelux will stay rather cool. South-western Europe will be sunny and warm. South-eastern Europe will turn rather cool and unsettled.

TODAY'S TEMPERATURES

Location	Max	Min	Location	Max	Min	Location	Max	Min
Abu Dhabi	34	24	Amsterdam	12	8	Barcelona	19	14
Algiers	22	12	Berlin	17	10	Bombay	34	24
Antwerp	12	8	Buenos Aires	25	15	Brussels	12	8
Athens	22	12	Calcutta	31	21	Budapest	18	12
Atlanta	22	12	Chengdu	17	10	Dublin	12	8
B. Aires	25	15	Cairo	28	18	Dubrovnik	16	10
Bangkok	37	27	Cape Town	22	14	Edinburgh	14	8
Barcelona	19	14	Frankfurt	15	9	Faro	26	18
			Geneva	14	8	Madrid	22	14
			Glasgow	13	7	Melbourne	24	16
			Hamburg	14	8	Moscow	12	6
			Helsinki	12	6	Mumbai	30	20
			Hong Kong	26	18	Manila	28	18
			Islandia	10	4	Montreal	17	10
			Jakarta	31	21	Moscow	12	6
			Jersey	13	7	Munich	18	12
			Karachi	34	24	Nairobi	26	18
			Kuwait	30	20	Naples	17	11
			L. Angeles	26	18	Nassau	30	20
			Lima	24	16	New York	18	12
			Lisbon	15	9	Nice	24	16
			London	15	9	Nicosia	28	18
			Luxembourg	12	6	Oak	14	8
			Lyon	17	11	Paris	17	11
			Madrid	22	14	Perth	20	12
						Prague	15	9
						Rangoon	35	25
						Riyadh	38	28
						Rome	14	8
						S. Francisco	17	11
						Seoul	21	15
						Singapore	32	22
						Stockholm	12	6
						Sydney	24	16
						Taipei	27	19
						Tel Aviv	23	17
						Tokyo	24	18
						Toronto	18	12
						Vancouver	13	7
						Venice	15	9
						Vienna	18	12
						Warsaw	16	10
						Washington	21	15
						Wellington	18	12
						Winnipeg	12	6
						Zurich	12	6

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Warm front, Cold front, Wind speed in KPH

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Lufthansa

Without us, they couldn't tilt and go.

Flight control actuators supplied by Dowty enable Bell Boeing's V-22 Osprey tiltrotor to take-off like a helicopter, fly at turbo speed, then settle safely onto its Messier-Dowty landing gear. Success with the US Marine Corps has encouraged Bell Boeing to announce a smaller civil version, the BB609.

In contracts worth \$100 million each on projected aircraft sales, Dowty will supply the flight actuator system and Messier-Dowty, TI Group's joint venture with Snecma, the integrated landing gear system. Capable of carrying nine passengers 750 miles at around 300 mph, the BB609 has a brilliant commercial future - and Dowty will tilt things in its favour.

Dowty is one of TI Group's three specialised engineering businesses, the others being Bundy and John Crane. Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the critical answers right for its customers. Worldwide.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday April 29 1997

Europe is the issue

Sometimes, the question confronting electorates is of decisive importance. In 1979, it was whether the UK could be governed; in 1983, whether it would have a market economy. This year, the issue for the business community is whether Britain can remain constructively engaged in Europe during what will be a crucial period for the European Union's economic and political future.

If this is the question, there is only one answer. The Conservative party has reached a point which makes it all but impossible for its leaders to implement rational policies towards Europe. By default, that opens the door to Mr Tony Blair and Labour.

This does not amount to anything like an enthusiastic endorsement. The closer Mr Blair gets to power, the less impressive he has appeared. Under his leadership, Labour has made a bold and decisive break with its past, and embraced the market economy. But somehow he has failed to persuade the public of what he actually stands for. He evinces moral indignation at the Tories, and then accepts the policies those authors he has condemned. Where once he looked brave, he can now look shallow.

Europe apart, the balance of advantage from a business perspective tilts in favour of the Conservatives. Neither of the main parties has a commanding lead when it comes to macro-economic policy. They have not committed themselves to an independent Bank of England; they are both tied to what look like implausible objectives for public spending; and neither admits that taxes are more likely to be raised than cut. But Labour, with its sights set on two election victories rather than just one, seems as likely to be prudent in its fiscal and monetary policies as the Conservatives.

Business fears

Labour's policies towards the micro side of the economy are another matter. The windfall tax on the privatised utilities is wrong; the minimum wage is risky; signature of the European social chapter is unnecessary. Its instincts in these areas are not to be trusted. Business would rightly view the first Labour budget with trepidation: corporation tax and dividend tax might look an irresistible opportunity to a chancellor who already had his hands tied in so many other tax areas.

On the European question, Labour has wriggled uncomfortably during the course of the campaign, in the face of a growing public mood of euroscepticism. How it would behave in office is an open question. But here it has one clear advantage: there is no serious internal challenge to Mr Blair's stated policy of constructive engagement.

Relations between the UK and the rest of Europe have deteriorated sharply in the course of the last parliament. Again and again, the government has become embroiled in futile and ill-considered conflicts with its European counterparts. Government through the Whips' office, negotiating with one eye over the shoulder at the restless back benches: all this has become a familiar part of the political process. With the Conservative party in its present state, it is hard to see how things could improve in the next parliament.

Monetary union

Mr John Major would find it very difficult to sustain his sensible wait-and-see approach towards European monetary union now that so many of his own MPs have publicly ruled out ever joining the project. He would have enormous trouble in reaching agreement with the rest of the EU on a new treaty at the intergovernmental conference, or indeed on almost anything. The risk, despite the inclinations of the present leadership, is that a re-elected Conservative government could find itself drifting further away from its European partners, even to the point where membership of the EU itself came into question.

The UK needs Europe, and Europe needs the UK. The fortunes of British business are inextricably linked with the preservation and extension of the single market, which rests in turn on continued UK participation in the political structures of the EU. More broadly, the UK's influence in the world is increasingly a function of its membership of the EU. Disengagement is not an option any government could responsibly contemplate.

Britain also has much to contribute, politically and economically. The coming years will determine whether the EU can reform its internal institutional and economic structures in a way that will permit enlargement to the east and an open and confident approach to the world. The influence of the UK should be crucial in this respect. And whether or not it chooses to engage in every aspect of European integration, the economic and political well-being of the country will be shaped to a significant extent by that of the EU as a whole.

The Financial Times has no party affiliations, and its readers make up their own minds about how they vote. Its opinions are shaped by its belief in the market economy, free trade and the creation of an outward-looking Europe. This has made it a natural supporter of the Conservative party in elections over the years. But there have been exceptions. 1997 is one of them.

Dollars talk

This time, it seems, they really mean it. The finance ministers of the Group of Seven industrial nations agreed in Washington this weekend that the rise in the dollar had gone quite far enough. They said it first at their meeting in Berlin on February 7. This time, the words were perceptibly tougher. Since Berlin the dollar has risen a further 2.4 per cent against a trade-weighted index of currencies and, more important, by 3.3 per cent against the yen.

It is not surprising that the markets yesterday greeted the latest pronouncement with something of a yawn. Official intervention on a big scale is a mere whisp of a threat. Interest rates show no sign of moving to favour a weaker dollar. There are other reasons for not becoming over-excited by its present level: despite the rise since April 1995 of 20 per cent trade weighted and 53 per cent against the yen.

That rise started as a correction, cheered on by the world's financial leaders, and has not yet returned the US currency to its value against the yen in January 1993. So why has Mr Robert Rubin, the US Treasury Secretary, been expressing (cautious) concern? The reason is the increasing volume of imports to the US, particularly of Japanese manufactured goods.

The latest figures on automobile imports, now running around 40 per cent above last year's levels, have revived painful memories of the 1980s when Japanese imports caused deep wounds to uncompetitive US

industries and threw many workers out of their jobs.

But the dollar is now less than half its value against the yen compared with the first half of 1988. More important, the US economy has become stronger, is running flat out at full employment and is benefitting from the mild counter-inflationary push of a strong dollar. On the other hand, the Japanese economy, still weighed down by an overhang of debt, is set to decelerate this year as a result of recent increases in taxes.

Although a recurring theme of US policy has been that Japan should reduce its dependence on exports by stimulating the domestic economy, the Japanese government does not see this as an option. Japanese interest rates are as low as they could be, and a government deficit of 7 per cent of GDP gives little room for fiscal loosening. Nevertheless there are dangers of a further rise in the US currency, which may be as much political as economic. The ugly cries of protectionism and xenophobia have been muted during the US recovery, but rising interest rates, a stronger dollar and a reversal of the recent employment trends could revive them all too quickly.

For this reason, as well as a desire to protect the international value of domestic assets, Japan also has an interest in restraining the dollar's rise. However, the markets confidently expect US interest rates to rise relative to those in Japan. So, whatever the G7 may hope for, the question remains: is anyone listening out there?

Targeted by Washington

US pressure to join an anti-missile project has put the Japanese government in a difficult position, says Gwen Robinson

For almost 50 years after the end of the second world war Japan relied for its defence needs on the shelter of the US nuclear umbrella. Under its constitution - often described as pacifist - the country has stayed out of international alliances and its armed forces have developed along purely defensive lines.

But in 1993, Japanese complacency was shattered when a North Korean missile plopped into the Sea of Japan, just off the country's west coast. Tokyo learnt of the test firing only when Washington passed on the news - a blunt reminder of the country's security inadequacies.

In recent weeks, fears have been rekindled by reports that North Korea has deployed Rodong-1 missiles, capable of reaching most parts of Japan. Statements by Mr Hwang Jang Yop, the high-ranking North Korean defector, that Pyongyang is "capable of scorching" Japan as well as South Korea with nuclear and chemical weapons have emphasised the country's vulnerability.

These events have given added impetus to the talks between Tokyo and Washington over US proposals for the joint development of a sophisticated anti-ballistic missile system known as the Theatre Missile Defence project. Mr Ryutaro Hashimoto, Japan's prime minister, has promised a decision later this year - aware of growing American pressure on Japan to shoulder more of the Asian regional defence burden.

But in Japan, the proposal to join the project has put the government in a difficult position. Participation would place unwelcome strain on the defence budget, alarm neighbours and almost certainly force the country to revise its constitution.

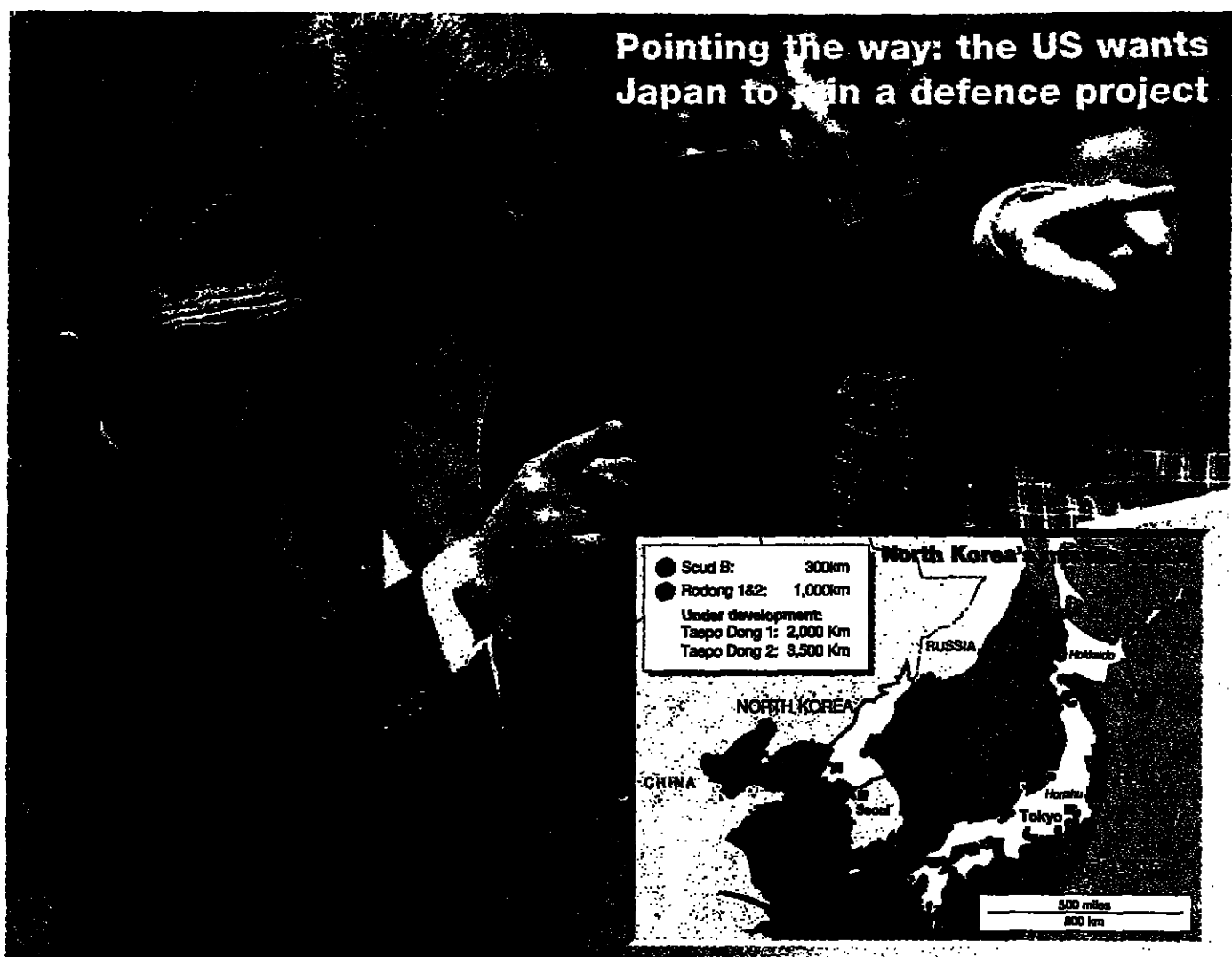
As a Japanese official puts it: "We don't want to say yes and we don't want to say no, but it's hard to see how there can be a soft landing for this issue."

On paper, Japan's military strength looks impressive - it ranks among the world's four largest military spenders. It has ample shiny, new equipment - including state-of-the-art airborne warning and control systems (AWACS), sophisticated military electronics, and Aegis destroyers equipped with Patriot anti-missile systems.

But in modern warfare terms, the Japanese military - called the "Self-Defence Forces" - is rather like a warrior samurai swinging a very blunt sword. Not only is it without a nuclear deterrent, it has no deep-water navy and only limited ability to reach potential enemies.

Defence spending for the current year has risen by just under 2 per cent to ¥4,940bn (¥34bn) with almost half going on personnel-related costs and around 12 per cent on maintaining US forces in Japan, less than a fifth is spent on defence equipment.

Washington has been pushing Japan to participate in the Theatre Missile Defence project since 1993, arguing Japan has been able to establish itself as an economic power while sheltering under US protection. The project aims to develop a system capable of protecting limited areas, or "theatres", from tactical missiles with a range of about 3,000km.



Pointing the way: the US wants Japan to join a defence project

TMD systems use spy satellites to detect hostile missile launches and relay signals to advanced land or sea-based anti-missile systems which intercept and destroy the missiles. However, the Japanese have in the past been sceptical about such systems: the precision required to hit and destroy incoming missiles is greater than "shooting down a bullet fired from a pistol", according to one defence official.

A similar anti-missile defence programme to develop a "Theatre High-Altitude Area Defence" system for the US army has failed all four trials - the latest on March 8 - missing targets by a wide range.

Recently, however, Japanese interest in TMD co-operation has discreetly revived. In the financial year which ended in March, the government allocated ¥440m for preliminary research on the project, and requested leading defence contractors to study ways they could contribute.

Executives at one leading Japanese defence contractor, which has been studying missile production since the early days of President Ronald Reagan's Strategic Defence Initiative, say the industry is already gearing up for participation. Defence companies see the TMD project as an opportunity to move into international markets and reverse the steady decline of the industry.

The industry grew strong on government contracts in the 1970s and 1980s, at one point capturing 70 per cent of the country's total military procurement budget. Contractors eagerly ploughed money into R&D, co-operated fully with each other and trained new genera-

tions of military engineers.

This fostered a peculiarly Japanese brand of "techno-nationalism", according to Professor Richard Samuels, a specialist on Japanese defence at the Massachusetts Institute of Technology.

"Defence technology was valued for its ability to elevate the capacities of the economy as well as to produce military hardware; defence production became firmly embedded in the institutions of the commercial economy," he says.

However, spending cuts on frontline equipment combined with greater competition from foreign suppliers - particularly in the US - have left Japanese companies with a declining income.

The 20 biggest contractors, led by Mitsubishi Heavy Industries, are shifting increasingly to civilian commercial production. They are also demanding a lifting of the ban on weapons exports - introduced in the 1970s after a scandal over sales abroad. And they have recently established an industry forum with leading US defence contractors.

"This happened only because both governments asked the private sector to promote relations," says a defence industry spokesman with Kaidanren, the leading business organisation. "The Japanese government clearly feels it's time to start a dialogue."

However, there are constitutional and political obstacles to Japanese participation in the TMD project. Full involvement would probably require a complete overhaul of the country's "pacifist" constitution, which rules out involvement in collec-

tive defence arrangements.

Supporters of the project say that may be a good thing and would move Japan toward becoming "a normal country", a term coined by Mr Ichiro Ozawa, the main opposition leader. But it would draw fierce opposition from Japan's powerful pacifist lobby, endangering the survival of any government.

Worse, it would almost certainly provoke neighbouring military powers - notably China and North Korea - to develop their offensive capabilities further. China implied such threats in complaints last year to the United Nations about Japan's missile defence deliberations.

For Tokyo's financial mandarins, a primary concern is the cost of the project. Japanese contractors and officials estimate it could be as much as \$150bn - and that Japan would be expected to bear at least half the costs.

But the Pentagon claims a basic capability could be developed for as little as \$4.5bn. And early calculations have shown that developing an efficient system would cost at least \$40bn.

However, the limited history of collaboration between the US and Japan on defence projects is not encouraging. The only example is the joint development of the F-2 fighter jet, which ran way over schedule and has been dogged by disputes over budgets and exchange of defence technologies.

Privately, defence officials and industry executives say that Japan, reliant as it is on the US nuclear umbrella, will have no choice but to agree to some form of participation in the project. Washington is already pressing

for Japanese forces to support US forces in times of emergency under a current review of US-Japan security co-operation, due for completion in September.

"New infrastructure is necessary because Japan's defence systems must be updated, now we know how big the missile threat is," says another defence industry executive. "But we never looked at it because the US was always responsible and Japan needed to keep only a minimum defence capability."

Tokyo is keenly aware that its insular defence policy will have to change. Partly in preparation, Japan's defence forces have been moving toward a leaner, technologically more sophisticated military structure.

The transition, however, has brought new realisation, according to Barbara Wampler, a political analyst with the Washington-based Japan Economic Institute. Joint projects with the US on weapons systems may be the only way for Japan to afford military innovations while preserving domestic defence technological capability.

Government officials suggest the most likely outcome of the negotiations over the TMD project is Japan's initial agreement to partial participation - with a view to strengthening involvement gradually. This would have several advantages for Japan: the Americans would be mollified, if not happy; there would be little domestic fuss; Japanese industry would gain access to the project; and, expensively - at least at early stages - would not be significantly large.

A little bit of yes and a little bit of no: in the eyes of many, an appropriately Japanese response.

100 years ago

Trade in Britain... British trade in Mexico, we are told in a *Financial Times* report on the trade of Veracruz, suffers from the exercise of too much economic protectionism. The employment of agents and travellers, and too little regard for the needs of the question of nationality for our Consul points out that there is no doubt that in commercial competition the question has a greater influence than is generally acknowledged. It appears that British merchants are in the habit of placing their interests in the hands of foreigners to save the expense of educating travellers of their own nationality. Trade secrets may thus be disclosed to competitors in other countries.

50 years ago

Swedish Trade With Japan... Stockholm, 28th April. Many Swedish companies are interested in resuming trade with Japan, and official contacts have been opened with the United States occupation authorities in Tokyo. It is expected that several Swedish representatives will be among the 400 businessmen to be invited by the Americans.

Some bottle

The Observer was privileged to witness the following exchanges in an emporium in Mayfair, one of London's smartest districts, at the weekend. Well-dressed customers, comprising assistant: "Do you know anything about wine?" "I don't know," the customer suggested. "Send me someone who does." The assistant, so charming assistant: "We don't have anyone." At which point the customer's assistant slipped: "What's the point of selling wine if you know nothing about it?" Came the reply: "What's the point of selling wine if you know nothing about it?"

Cardinal error

The Lord cannot always provide when the Catholic Church gets mixed up with banks which are into trouble. In this case, the *Financial Times*...

Europe's

Helmut Kohl's feelings for Europe's growth are...

